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Tax practice Guides and Checklists 1988

American Institute of Certified Public Accountants. Tax Division

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1988

Tax Practice Guides and Checklists

AICPA TAX DIVISION

AICPA

American Institute of Certified Public Accountants

December 1, 1988

Dear Practitioner:

Enclosed are the 1988 tax return practice guides which were prepared by the Tax Practice Guides Subcommittee of the AICPA Tax Division. They include a draft 1040 engagement letter and miscellaneous practice guides, as well as checklists for the preparation and review of the following:

1. Form 1040 -Individual Income Tax Return
2. Form 1041 -Fiduciary Income Tax Return
3. Form 1065 -Partnership Return of Income
4. Form 1120 -Corporation Income Tax Return
5. Form 1120S -Income Tax Return for an S Corporation
6. Form 5500 -Return/Report of Employee Benefit Plan
7. Passive Activities


Although much care and work have gone into the development of these guides, they are subject to change. While they have been revised through the fall of 1988, the Technical & Miscellaneous Revenue Act of 1988 had not become law nor had many of the regulations been written at the time the guides were finalized. These checklists have been prepared based on interpretations of law available at the time of preparation and may need to be revised as new developments occur.

Accordingly, these practice guides are issued as drafts only and you should retain responsibility for their final content. Please review them carefully and make any changes necessary for your particular use. The practice guides are available this year on PC compatible diskettes in ASCII format. An order form is enclosed with more details.

Your suggestions for improvements are most welcome and should be sent with the enclosed user survey card.

I hope that these practice guides will be helpful to you. Tax Division members receive these checklists each year as part of their membership benefits. If you are not a member, you may wish to consider joining to expedite receiving these checklists, and to take advantage of the other benefits of division membership. Please contact the Tax Division at the above address if you would like information on membership.

Sincerely,



Donald H. Skadden
Vice President - Taxation

WARNING!

This package of practice guides was completed in the fall of 1988 and does not reflect any changes that may have occurred due to the Technical and Miscellaneous Revenue Act that was pending at the time of publication of this document. You should be aware that any updates or changes necessary due to this recent legislation should be effected by you in each practice guide based on your individual situation.

1988 AICPA FEDERAL TAX DIVISION PRACTICE GUIDES - USER'S RESPONSE SHEET

1) How do you use the checklists? Check where applicable.

	1040	1041	1065	1120	1120S	5500	8582	1040 Short
Do Not Use	_____	_____	_____	_____	_____	_____	_____	_____
Use My Own	_____	_____	_____	_____	_____	_____	_____	_____
Modify It	_____	_____	_____	_____	_____	_____	_____	_____
Shorten It	_____	_____	_____	_____	_____	_____	_____	_____
Lengthen It	_____	_____	_____	_____	_____	_____	_____	_____
Add Code Ref.	_____	_____	_____	_____	_____	_____	_____	_____

2) Prioritize your desire for future guides and checklists by numbering the following. Number one (1) indicates the highest priority. Do not put a number by those you do not desire.

- _____ Gift Tax Form 709
- _____ Estate Tax Form 706
- _____ Non-Profit Organization Form 990
- _____ Private Foundations Form 990PF
- _____ Tax Organizers
- _____ Election Forms
- _____ Additional Versions of Engagement Letters

3) Please list comments on the 1988 tax practice guides as well as suggestions you have for future ones on the following lines:

4) Please attach tax checklists and practice guides developed by your firm to assist the tax division in preparing future guides for the membership.

5) If you would be interested in developing future tax practice guides, please fill in the following information so that we can contact you.

Name _____
 Address _____
 Phone _____
 Practice Guide _____

No postage necessary. Please fold this form so that Business Reply Mail panel appears on the outside; tape along edge and mail.

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1988

TAX PRACTICE GUIDES

and

CHECKLISTS

AICPA TAX DIVISION

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NOTICE TO READERS

Tax practice guides are designed as educational and reference material for the members of the Tax Division and others interested in the subject. They do not establish standards or preferred practices.

Although much care and work have gone into the development of these guides, they are subject to change. While they have been revised for the Tax Reform Act of 1986 and the Revenue Act of 1987, the related Technical and Miscellaneous Revenue Act of 1988 had not become law nor had many of the regulations been written at the time the guides were finalized. Therefore, these checklists have been prepared based on interpretations of current law and need to be revised as new developments occur.

Accordingly, these practice guides are issued as drafts only, and you retain responsibility for their final content. Please review them carefully and make any changes necessary for your particular use.

Members of the 1988-1989 AICPA Tax Practice Guides Subcommittee prepared these practice guides. The members of that committee are listed below:

Rick Betts, Chairman

Terri L. Husberg
Colin E. Blalock
Larry B. Kominsky
Michael S. Wolff

Richard C. Simma
B. Quinn Waters
Robert L. Holman
James F. Pinner

Jim Clark, Manager, AICPA Tax Division Staff

The subcommittee gratefully acknowledges the contributions made to the development of these practice guides by former members:

Victor E. Barton
George Brody
Christine S. Schnug

PREFACE

Enclosed are the 1988 tax practice guides which were prepared by the Tax Practice Guides Subcommittee of the AICPA Tax Division.

The Subcommittee hopes that these practice guides will be helpful to you. Tax Division members receive these checklists each year as part of their membership benefits. If you are not a member, you may wish to consider joining to expedite receiving these checklists and to take advantage of the other benefits of Division membership. Please contact the Tax Division at 1455 Pennsylvania Avenue, N.W., Washington, D.C. 20004-1007, if you would like information on membership.

The tax practice guides were drafted to be comprehensive checklists. The Subcommittee recognizes that practitioners may feel that they are too comprehensive for practical application. However, a more concise format would severely restrict coverage of the spectrum of technical considerations faced by tax practitioners. For this reason, comprehensive versions were drafted, allowing individual firms the option of editing the checklists to better meet their specific needs.

The Subcommittee has, however, included a short version 1040 checklist in response to requests from Tax Division members. Also, please note that references to Code Sections are limited to facilitate the use of these guides by tax preparers who are not tax specialists.

The tax practice guides have been expanded this year to include a user's response sheet and a diskette order form. The committee that prepares these guides is interested in members' comments and suggestions for future practice guides.

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SAMPLE ENGAGEMENT LETTER

Dear Client:

We appreciate the opportunity of working with you and advising you regarding your income tax. To ensure a complete understanding between us, we are setting forth the pertinent information about the services which we propose to render for you.

We will prepare your 1988 federal and requested state income tax returns from information which you will furnish to us. We will make no audit or other verification of the data you submit, although we may need to ask you for clarification of some of the information. We will furnish you with questionnaires and/or worksheets to guide you in gathering the necessary information for us. Your use of such forms will assist us in keeping our fee to a minimum.

You have the final responsibility for the income tax returns and, therefore, you should review them carefully before you sign and file them.

Our work in connection with the preparation of your income tax returns does not include any procedures designed to disclose defalcations or other irregularities, should any exist. We will render such accounting and bookkeeping assistance as we find necessary for the preparation of the income tax returns.

We will use our judgment in resolving questions where the tax law is unclear, or where there may be conflicts between the taxing authorities' interpretations of the law and what seem to be other supportable positions. Unless otherwise instructed by you, we will resolve such questions in your favor whenever possible.

Our fee for these services will be based upon the amount of time required at our standard billing rates, plus out-of-pocket expenses. We will bill you on that basis, and all invoices will be due and payable upon presentation.

Your returns, of course, are subject to review by the taxing authorities. Any items which may be resolved against you by the examining agent are subject to certain rights of appeal. In the event of such government tax examination, we will be available upon request to represent you and will render additional invoices for the time and expenses involved.

If the foregoing fairly sets forth your understanding, please sign this letter in the space indicated and return it to our office.

We want to express our appreciation for this opportunity to work with you, and we trust that this will be the continuation of a long and congenial association.

Very truly yours,

Accepted:

By:

Date:

Notes to Practitioners:

- (1) The signed affirmation of the client, while desirable, may not be deemed to be appropriate in specific situations and may be deleted.
- (2) In some states, the Board of Accountancy requires that clients must be informed if an outside service bureau is used to process clients' tax returns. In those states, such a statement may be included in an appropriate section of the letter.
- (3) As in accounting engagements, a new engagement letter should be executed prior to the commencement of services each year, in order to reaffirm on a current basis the representations of the client.
- (4) This letter is intended for use as a guide only, to be adopted to the particular circumstances of the individual member, and does not represent an official AICPA position.

**EMPLOYER'S WORKSHEET TO CALCULATE EMPLOYEE'S
TAXABLE INCOME RESULTING FROM
EMPLOYER-PROVIDED VEHICLE
FOR CALENDAR YEAR 1988**

EMPLOYEE'S NAME: _____

Select One Method (Note Limitations on Methods II and III)

METHOD I - GENERAL METHOD

Fair Market Value of Vehicle At 1/1/85 (Or Date
of Purchase If Bought After 1/1/85) \$ _____

Annual Lease Value - Determined By Using Above
Fair Market Value and Chart on Back of This
Worksheet (A) \$ _____

Total Miles Driven During Year (1) _____

Subtract: Total Business Miles

Driven (2) (_____)

Total Personal Miles Driven (3) _____

Personal Use - Divide Step (3) By Step (1) (B) _____%

*Personal Value of Annual Lease - Multiply
(A) X (B) (C) \$ _____

If Employer Pays for Fuel, Multiply the
Number of Personal Miles Driven By 5.5
Cents Per Mile. Otherwise, Enter \$0 (D) \$ _____

Method I - Total Employee Taxable Income -
Add (C) and (D) \$ _____

* If used less than entire year, multiply this amount by
fraction which is number of days available divided by 365.

METHOD II - SPECIAL COMMUTING METHOD

This part can only be used for vehicles covered by a written policy which
allows commuting but no other personal use. DO NOT USE if employee is
officer or 1% owner.

Number of Commuting Round Trips Made (A) _____
Value Per Round Trip (B) x 3.00

Method II - Total Employee Taxable Income-
Multiply (A) By (B) \$ _____

METHOD III - STANDARD MILEAGE RATE METHOD **

- A. Total Personal Use Miles For CY 19 _____
- B. Enter Smaller of 15,000 or Total
Personal Use Shown Above _____ x \$0.24=\$_____
- C. Enter Mileage, If Any, In Excess
of 15,000 _____ x \$0.11=\$_____
- D. Enter Mileage For Which Employee
Paid For Fuel _____ x \$0.055=\$(_____)
- E. B + C - D = Total Value of Personal
Use, Standard Mileage Rate Method \$_____

**See Limitations on Use of This Method on Next Page.

NOTE: This worksheet is not required for any vehicles covered
by the employer's written policy which does not allow
any commuting or personal use.

LIMITATIONS ON STANDARD MILEAGE RATE METHOD

An alternative is to value the personal use in accordance with the standard mileage rate formula (currently, 24 cents per mile for the first 15,000 miles per year and 11 cents per mile for all miles in excess of 15,000). Generally, in order to qualify to use the cents-per-mile method, the vehicle must: (1) Be regularly used in the employer's business, (2) Be driven at least 10,000 miles per year, and (3) Have a fair market value of less than \$12,800.

Once this special alternative is used for a particular vehicle, it must be continued for as long as the vehicle is owned by the employer. If this method is desirable, it must be selected by the later of January 1, 1987, or the date it is first used for personal purposes.

ANNUAL LEASE VALUE TABLE

AUTOMOBILE FAIR MARKET VALUE	ANNUAL LEASE VALUE	AUTOMOBILE FAIR MARKET VALUE	ANNUAL LEASE VALUE
\$ 0- 999	\$ 600	22,000-22,999	6,100
1,000- 1,999	850	23,000-23,999	6,350
2,000- 2,999	1,100	24,000-24,999	6,600
3,000- 3,999	1,350	25,000-25,999	6,850
4,000- 4,999	1,600	26,000-27,999	7,250
5,000- 5,999	1,850	28,000-29,999	7,750
6,000- 6,999	2,100	30,000-31,999	8,250
7,000- 7,999	2,350	32,000-33,999	8,750
8,000- 8,999	2,600	34,000-35,999	9,250
9,000- 9,999	2,850	36,000-37,999	9,750
10,000-10,999	3,100	38,000-39,999	10,250
11,000-11,999	3,350	40,000-41,999	10,750
12,000-12,999	3,600	42,000-43,999	11,250
13,000-13,999	3,850	44,000-45,999	11,750
14,000-14,999	4,100	46,000-47,999	12,250
15,000-15,999	4,350	48,000-49,999	12,750
16,000-16,999	4,600	50,000-51,999	13,250
17,000-17,999	4,850	52,000-53,999	13,750
18,000-18,999	5,100	54,000-55,999	14,250
19,000-19,999	5,350	56,000-57,999	14,750
20,000-20,999	5,600	58,000-60,000	15,250
21,000-21,999	5,850		

For vehicles having a fair market value in excess of \$60,000, the Annual Lease Value is equal to: $(.25 \times \text{automobile fair market value}) + \500 .

STATEMENT FROM EMPLOYEE TO EMPLOYER REGARDING
USE OF EMPLOYER - PROVIDED VEHICLE
FOR CALENDAR YEAR 1988

Regarding: Your Use of Following Vehicle:

(Employer's Description of Vehicle - Model, Make, Etc.)

Dear Employee:

As you are probably aware, the IRS is requiring employers to provide certain information on their tax return with respect to the vehicle provided to you during the calendar year. The IRS generally requires that written records be maintained to document the use of business vehicles. Since our policy requires you to maintain the detailed records, please provide answers to the following questions. If you were provided more than one vehicle, you need to prepare one of these statements for each vehicle provided.

If you have any questions regarding the requirement that you maintain sufficient evidence to support your answers to the following questions, contact your supervisor immediately.

- (1) Was the vehicle available for your personal use during off-duty hours? YES NO
- (2) Did you have another vehicle available for your personal use (this includes a car you own personally)? YES NO
- (3) Are you an officer or 1% owner of the business?
 YES (If Yes, Skip Question 4) NO
- (4) How many commuting round trips did you make in this vehicle?

- (5) Please provide the number of miles for each category below:

Total Business Miles	_____	Miles
Total Commuting Miles	_____	Miles
Total Other Personal (Non-Commuting Miles)	_____	Miles
TOTAL MILES	_____	Miles

- (6) Did the employer pay the cost of fuel consumed by this vehicle? YES NO

After you have read this statement, had your questions answered and responded to items (1) through (6) above, please sign and date in the space provided below and return to your supervisor immediately.

(EMPLOYEE'S SIGNATURE AND DATE)

NOTE: The information contained in this form will be used in the preparation of the Company's income tax return.

INDIVIDUAL TAX RETURN PREPARATION AND REVIEW CHECKLIST
1988 - FORM 1040

Client Name: _____	Client Number: _____
Interviewed by: _____	Date Completed/Hours: _____
Prepared by: _____	Date Completed/Hours: _____
Reviewed by: _____	Date Completed/Hours: _____
Return Due Date: _____	Extension Due Date: _____

	<u>DONE</u>	NOT <u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
A) GENERAL INFORMATION				
A1) Review the taxpayer's name, age, social security number, address, occupation, filing status and number of exemptions. Obtain dependent's birthdates and social security numbers.	_____	_____	_____	_____
A2) Review prior year returns, memos, workpapers and correspondence files.	_____	_____	_____	_____
A3) If the taxpayer has been examined by the Internal Revenue Service:				
a) Obtain copies of the revenue agent's reports.	_____	_____	_____	_____
b) Verify that the agent's adjustments have been entered in the taxpayer's records.	_____	_____	_____	_____
c) If any of the agent's adjustments affect income tax returns of years other than those audited, consider amendments.	_____	_____	_____	_____
d) Determine whether amended state tax returns should be filed to reflect adjustments.	_____	_____	_____	_____
A4) Check for carryover items such as:				
a) Prior year overpayment credited to estimate.	_____	_____	_____	_____
b) Net operating loss.	_____	_____	_____	_____
c) Capital loss.	_____	_____	_____	_____
d) Investment credit (compute % reduction).	_____	_____	_____	_____
e) Charitable contributions.	_____	_____	_____	_____
f) Installment sales.	_____	_____	_____	_____

INDIVIDUAL TAX RETURN PREPARATION AND REVIEW CHECKLIST
1988 - FORM 1040

		<u>DONE</u>	<u>NOT DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
A)	GENERAL INFORMATION (Continued)				
	g) Jobs credit.	_____	_____	_____	_____
	h) Foreign tax credit.	_____	_____	_____	_____
	i) Retirement plan contribution.	_____	_____	_____	_____
	j) Research tax credit.	_____	_____	_____	_____
	k) General business credits.	_____	_____	_____	_____
	l) Energy credits.	_____	_____	_____	_____
	m) Passive activity deductions and credits.	_____	_____	_____	_____
	n) Change of accounting adjustments (Sec. 481):				
	1) Bad debt reserve.	_____	_____	_____	_____
	2) Uniform capitalization.	_____	_____	_____	_____
	3) Other Section 481 adjustment (Proportionate disallowance; overall change of method, etc.)	_____	_____	_____	_____
	o) Four year ratable inclusion of short period income from partnerships, S corporations and trusts that changed to a required tax year in 1987.	_____	_____	_____	_____
	p) Home office deductions.	_____	_____	_____	_____
	q) Alternative Minimum Tax Credit carry- over.	_____	_____	_____	_____
	r) Update schedule of carryforward deductions and credits.	_____	_____	_____	_____
A5)	Inquire whether the taxpayer has made or received any below-market-rate loans. If so, determine imputed interest consequences.	_____	_____	_____	_____
B)	INCOME				
B1)	Determine if taxpayer received any taxable employee benefits during the year (e.g., PS58 costs, club dues, auto allowances). Determine whether they were reported on Form W-2.	_____	_____	_____	_____
B2)	Determine if taxpayer had investment income from foreign companies and if tax was withheld at the source.	_____	_____	_____	_____

INDIVIDUAL TAX RETURN PREPARATION AND REVIEW CHECKLIST
1988 - FORM 1040

		<u>DONE</u>	<u>NOT DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
B)	INCOME (Continued)				
B3)	Disclose exempt interest on state and municipal bonds on the federal return.	_____	_____	_____	_____
B4)	Exclude interest on United States securities from the state returns. Consider whether municipal bond interest excluded on federal should be added back on the state return.	_____	_____	_____	_____
B5)	Compare sources of dividend and interest income with prior year's items. Name of payor on return should agree with 1099.	_____	_____	_____	_____
B6)	Review dividends in order to segregate taxable, non-taxable and capital gain portions.	_____	_____	_____	_____
B7)	Update the taxpayer carryforward data schedule for any non-taxable dividends or dividends reinvested.	_____	_____	_____	_____
B8)	Review reporting of any state tax refunds based on the tax benefit rule.	_____	_____	_____	_____
B9)	Determining if taxpayer paid or received alimony during the year. Ensure that child support payments are not included. If taxpayer paid alimony, include the recipient's name and social security number on Form 1040.	_____	_____	_____	_____
B10)	If the taxpayer is divorced or separated:				
	a) Obtain a copy of the corresponding agreement.	_____	_____	_____	_____
	b) Determine the appropriate basis of any property transferred.	_____	_____	_____	_____
	c) Determine if taxpayer received depreciable business assets which have been converted to non-business personal assets. If applicable, report depreciation recapture and related investment credit recapture.	_____	_____	_____	_____
	d) For post-July 18, 1984 divorces, review amount received/paid to determine non-taxable/deductible/recapture portion:				
	1) Six-year rule for pre-1987 divorces.	_____	_____	_____	_____
	2) Three-year rule for Post-1986 divorces and pre-1987 divorce decrees that have been modified to accommodate the three-year rule.	_____	_____	_____	_____

INDIVIDUAL TAX RETURN PREPARATION AND REVIEW CHECKLIST
1988 - FORM 1040

		<u>DONE</u>	<u>NOT DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
B)	INCOME (Continued)				
	e) Attach written authorization, or Form 8332, for dependency exemption to non-custodial parent tax return.	_____	_____	_____	_____
B11)	Determine that installment sales are reported properly.				
	a) Determine that the full amount of depreciation recapture is reported in the year of sale.	_____	_____	_____	_____
	b) Review for appropriate interest rates on debt instruments received in connection with the sale. Determine whether any interest rate/income adjustments are necessary.	_____	_____	_____	_____
	c) Dealer Sales:				
	1) Determine that the installment method, is <u>not</u> used to report post December 31, 1987 sales of dealer property. (Exceptions - farm property, certain time-share rights and residential lots if proper election is made).	_____	_____	_____	_____
	2) Determine that the interest owed as a result of an election in (1) above is properly reported.	_____	_____	_____	_____
	3) For sales occurring after February 28, 1986, and before January 1, 1988, compute Section 481 adjustments, and consider application of three year payment provisions for amounts attributable to the proportionate disallowance rules.	_____	_____	_____	_____
	d) Consider special rules for installment reporting by certain non-dealers of real property used in the trade or business or for the production of rental income where the sales price exceeds \$150,000 (Section 453A).	_____	_____	_____	_____
	1) Compute the interest payment on any deferred tax liability if the face amount of all obligations arising from this type of disposition exceeds \$5,000,000.	_____	_____	_____	_____
	2) Determine that the proper amount is treated as a collection on any pledged installment obligation.	_____	_____	_____	_____

INDIVIDUAL TAX RETURN PREPARATION AND REVIEW CHECKLIST
1988 - FORM 1040

		<u>DONE</u>	<u>NOT DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
B)	INCOME (Continued)				
	e) Consider election out of installment method.	_____	_____	_____	_____
B12)	If a residence or other property was sold, exchanged, or involuntarily converted during the year, consider the provisions relating to:				
	a) Non-recognition of gain or loss.	_____	_____	_____	_____
	b) Recapture of depreciation and/or investment tax credit (home office and related equipment).	_____	_____	_____	_____
B13)	Review the possibility of the wash sale rules being applicable to stock sales.	_____	_____	_____	_____
B14)	Inquire whether taxpayer has any worthless securities or other bad debts to be reflected in the current year return.	_____	_____	_____	_____
B15)	If there are any Section 1231 gains, determine the amounts, if any, subject to ordinary income treatment as a result of prior years' Section 1231 losses.	_____	_____	_____	_____
B16)	Consider office in home deduction limitations, and carryforwards.	_____	_____	_____	_____
B17)	If the taxpayer recovered amounts previously deducted, determine if the full benefit was received from prior years' deductions.	_____	_____	_____	_____
B18)	Determine if the taxpayer received an IRA, pension, or annuity and review for non-taxable portions.	_____	_____	_____	_____
B19)	Determine if the taxpayer made a qualified rollover within sixty days of a retirement plan distribution.	_____	_____	_____	_____
B20)	Determine if the taxpayer has met age 70-1/2 minimum withdrawal requirement for IRAs, etc.	_____	_____	_____	_____
B21)	Consider the tax basis of a partnership or S corporation interest before claiming a loss; also, at-risk limitations and hobby loss rules on sole-proprietor Schedule C.	_____	_____	_____	_____

(Next page is III-5)

INDIVIDUAL TAX RETURN PREPARATION AND REVIEW CHECKLIST
1988 - FORM 1040

		<u>DONE</u>	<u>NOT DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
B)	INCOME (Continued)				
B22)	Determine if the taxpayer has a partnership or S corporation loss carryforward not utilized due to insufficient basis and determine if additional basis has been generated in the current years to deduct all or a portion of the losses.	_____	_____	_____	_____
B23)	If the taxpayer is an S corporation shareholder who made loans to the corporation to utilize losses, check for gain on repayment.	_____	_____	_____	_____
B24)	Review all K-1's to determine that all items have been properly included.	_____	_____	_____	_____
B25)	Passive Activity:				
a)	Losses from an activity may be limited if the taxpayer has any of the following (See Passive Activity Checklist):				
1)	The taxpayer was involved in a trade or business in which he does not materially participate.	_____	_____	_____	_____
2)	The taxpayer had any rental activity other than hotels, car rental and similar activities in which substantial services are provided.	_____	_____	_____	_____
3)	The taxpayer is a limited partner or S corporation shareholder.	_____	_____	_____	_____
b)	Working interests in oil and gas properties (except if held in a limited partnership or S corporation) are generally excluded from passive activity limitations.	_____	_____	_____	_____
B26)	Designate and include income subject to self-employment tax (Schedule C, Partnership and Other Income).	_____	_____	_____	_____
B27)	Determine taxability of any scholarships, fellowships, social security benefits or disability income received. (Unemployment benefits are fully taxable.)	_____	_____	_____	_____
B28)	Consider proper amount to be reported with regard to income in respect of decedents (inherited installment obligations, etc.).	_____	_____	_____	_____

INDIVIDUAL TAX RETURN PREPARATION AND REVIEW CHECKLIST
1988 - FORM 1040

		<u>DONE</u>	<u>NOT DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
C)	DEDUCTIONS				
C1)	For all businesses of the taxpayer:				
a)	Determine if accounting methods used are comparable to the preceding period.	_____	_____	_____	_____
b)	Vacation pay accrual:				
1)	Review the taxpayer's policy to determine if a deduction is allowable on the accrual basis and that the accrued vacation will be taken/paid within two and one-half months.	_____	_____	_____	_____
2)	Consider that the 1987 Act repealed the Section 463 vacation rules and any taxpayer required to change accounting methods must recognize the adjustment over a maximum of four years.	_____	_____	_____	_____
c)	Consider the uniform capitalization rules (this applies to self-constructed assets, resalers with average receipts in excess of \$10 million including attribution and all manufacturers).	_____	_____	_____	_____
1)	Determine that all costs are included - those capitalized under old law full absorption, as well as a portion of following costs required under the 1986 and 1987 Acts:				
A)	Taxes (other than income).	_____	_____	_____	_____
B)	Tax depreciation/amortization.	_____	_____	_____	_____
C)	Percentage depletion.	_____	_____	_____	_____
D)	Administration costs.	_____	_____	_____	_____
E)	Support function/department.	_____	_____	_____	_____
F)	Officer's compensation.	_____	_____	_____	_____
G)	Insurance costs.	_____	_____	_____	_____
H)	Retirement plan contributions, including past service costs. New for 1988.	_____	_____	_____	_____
I)	Rework labor/scrap/spoilage.	_____	_____	_____	_____
J)	Purchasing.	_____	_____	_____	_____

INDIVIDUAL TAX RETURN PREPARATION AND REVIEW CHECKLIST
1988 - FORM 1040

		<u>DONE</u>	<u>NOT DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
C)	DEDUCTIONS (Continued)				
	K) Bidding expense on awarded contracts.	_____	_____	_____	_____
	L) Storage.	_____	_____	_____	_____
	M) Quality Control.	_____	_____	_____	_____
	2) Consider advantages and disadvantages of electing the "simplified" method of resalers.	_____	_____	_____	_____
	3) Consider interest capitalization rules for debt incurred to produce property.	_____	_____	_____	_____
	4) If the beginning inventory is revalued, ascertain the amount of adjustment required for the beginning inventory due to the change in method of accounting (Section 481). Ascertain Section 481 forward spread period (not to exceed four years).	_____	_____	_____	_____
	5) If 263A applies, determine that Form 3115 and the 263A checklist were filed with the tax return in the year of change. If not, these forms must be filed with the 1988 tax return. (See IRS Notice 88-92).	_____	_____	_____	_____
	6) For farmers and ranchers, consider one-time election out of uniform capitalization rules if election was not required in a prior year.	_____	_____	_____	_____
d)	Long-term contracts entered into after February 28, 1986:				
	1) Determine that taxpayers reporting under the completed-contract method recognize 40% (70% post October 13, 1987 contracts) of related income on percentage-of-completion method. (Exception - contracts completed within two years and annual average company receipts less than \$10 million.)	_____	_____	_____	_____
	2) Consider 1986 Act modifications to the percentage-of-completion method:				
	A) Completion percentage based on costs, not work performed.	_____	_____	_____	_____
	B) The expanded requirement to capitalize costs similar to uniform capitalization rules.	_____	_____	_____	_____

INDIVIDUAL TAX RETURN PREPARATION AND REVIEW CHECKLIST
1988 - FORM 1040

		<u>DONE</u>	<u>NOT DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
C)	DEDUCTIONS (Continued)				
	C) The requirement to compute prior year estimate inaccuracies with actual costs at completion of the contract and pay interest on related unpaid prior year taxes. ("Look-Back Rule").	_____	_____	_____	_____
	e) Determine whether individual has filed, by paper and/or magnetic media, all the information returns (1099's and 1098's) and whether they have included the personal use portion of autos, etc., in the employee's W-2.	_____	_____	_____	_____
	f) Consider self-employed health insurance deduction.	_____	_____	_____	_____
C2)	If employer included 100% of value of use of auto, etc., on W-2 determine if client has evidence to support deduction for a portion of the included amount as business use.	_____	_____	_____	_____
C3)	Determine the applicability of a moving expense deduction and whether the reimbursement is properly reported.	_____	_____	_____	_____
C4)	Determine if the taxpayer is entitled to a deduction for contributions to an IRA, Keogh or other qualified retirement plan and review possible alternatives with taxpayer before the return due date:				
	a) Determine that IRA/SEP contributions have been or will be made no later than April 15, 1989. Keogh plan contributions must be made by the due date of the return, including extensions.	_____	_____	_____	_____
	b) Alimony income qualifies for IRA contributions.	_____	_____	_____	_____
	c) Prepare Form 8606 for non-deductible IRA contributions.	_____	_____	_____	_____
C5)	Consider medical transportation deductions and medical and drug expense limitations.	_____	_____	_____	_____

INDIVIDUAL TAX RETURN PREPARATION AND REVIEW CHECKLIST
1988 - FORM 1040

		<u>DONE</u>	<u>NOT DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
C)	DEDUCTIONS (Continued)				
C6)	Consider the deduction of Medicare premiums if the taxpayer is 65 years of age, or older.	_____	_____	_____	_____
C7)	If medical insurance reimbursement for prior years has been received, determine whether such reimbursement should be reported as income.	_____	_____	_____	_____
C8)	Investment interest:				
a)	Limit the taxpayer's deduction for investment interest to net investment income.	_____	_____	_____	_____
b)	Consider the phase-out of the \$10,000 deductible amount (40% allocation in 1988).	_____	_____	_____	_____
c)	Reduce net investment income by net passive activity losses (other than rental real estate activities in which the taxpayer actively participates) which are allowed by virtue of the phase-out provisions.	_____	_____	_____	_____
d)	In computing net investment income, deduct investment expenses after application of the 2% AGI floor.	_____	_____	_____	_____
C9)	Personal interest:				
a)	Deduct only 40% of interest attributable to personal (consumer) items.	_____	_____	_____	_____
b)	Treat interest on tax deficiencies as personal interest.	_____	_____	_____	_____
C10)	Determine that qualified residence interest is limited to the principal residence of the taxpayer and one (1) other residence of the taxpayer; that all such debts are secured by such residences and the deduction is limited to:				
a)	Interest paid on acquisition indebtedness. Acquisition debt is either debt incurred before October 14, 1987, or not more than \$1,000,000 in debt incurred after October 13, 1987, to acquire, construct or substantially improve any qualified residence; and	_____	_____	_____	_____

INDIVIDUAL TAX RETURN PREPARATION AND REVIEW CHECKLIST
1988 - FORM 1040

		<u>DONE</u>	<u>NOT DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
C)	DEDUCTIONS (Continued)				
	b) Home equity indebtedness. Home equity debt cannot exceed the lesser of \$100,000 or the fair market value of the residence reduced by the acquisition indebtedness with respect to such residence.	_____	_____	_____	_____
C11)	Allocation of interest expense:				
	a) Determine that the proper allocations have been made dividing interest expense among:				
	1) Trade or business expenditures.	_____	_____	_____	_____
	2) Investment expenditures.	_____	_____	_____	_____
	3) Passive activity expenditures.	_____	_____	_____	_____
	4) Personal (consumer) expenditures.	_____	_____	_____	_____
	5) Tax-exempt investments.	_____	_____	_____	_____
	b) For interest on debts allocated to more than one expenditure, determine that the proper ordering of loan repayments has been considered.	_____	_____	_____	_____
	c) Determine that the debt has been properly reallocated to the expenditure when either:				
	1) The subject of the first expenditure has been disposed of and the proceeds are used for another expenditure, or	_____	_____	_____	_____
	2) The character of the expenditure has changed.	_____	_____	_____	_____
C12)	Other interest considerations:				
	a) Treat amortizable bond premium (for bonds acquired after October 22, 1986) as interest expense.	_____	_____	_____	_____
	b) Consider the capitalization of interest when the taxpayer is constructing or producing real or tangible personal property which:				

INDIVIDUAL TAX RETURN PREPARATION AND REVIEW CHECKLIST
1988 - FORM 1040

		<u>DONE</u>	<u>NOT DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
C) DEDUCTIONS (Continued)					
	1) Has a class life of 20 year or more,	_____	_____	_____	_____
	2) Has an estimated production period exceeding two years, or	_____	_____	_____	_____
	3) Has an estimated production period exceeding one year and a cost exceeding \$1,000,000.	_____	_____	_____	_____
	c) Eliminate interest expense on debts with respect to group term life insurance policies (purchased after June 20, 1986) on owners and key employees to the extent that the total of such loans exceed \$50,000.	_____	_____	_____	_____
	d) Determine that interest is not claimed for any loan made or renewed after 1986 from a qualified retirement plan to a key employee or if such loan is guaranteed by 401(k) deferrals.	_____	_____	_____	_____
C13)	Consider the charitable contribution limitations.	_____	_____	_____	_____
C14)	List all non-cash contributions separately. When the total claimed value of all contributed property exceeds \$500 and/or the value of one item exceeds \$5,000, complete the applicable section of Form 8283.	_____	_____	_____	_____
C15)	Review all personal casualty gains and losses for proper reporting.	_____	_____	_____	_____
C16)	Consider vacation home deduction limitations.	_____	_____	_____	_____
C17)	Inquire if the taxpayer can substantiate by adequate records, as required under IRC Section 274, expenses claimed for entertainment, gifts, travel, conventions, and listed property. (Note \$25 limit on gifts.)	_____	_____	_____	_____
C18)	Limit meals and entertainment deduction to 80%. (Inquire if there are any employee events, qualified banquets, etc., that qualify for 100% deduction.)	_____	_____	_____	_____
C19)	Consider deduction of unused loss carryovers and excess deductions on termination from estates and trusts.	_____	_____	_____	_____

INDIVIDUAL TAX RETURN PREPARATION AND REVIEW CHECKLIST
1988 - FORM 1040

		<u>DONE</u>	<u>NOT DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
D)	DEPRECIATION				
D1)	Consider various depreciation methods and lives (for 1987-1988 acquisitions consult Rev. Proc. 87-57 tables):				
a)	Consider Section 179 election to expense certain depreciable assets up to \$10,000. Reduce \$10,000 ceiling by the cost of qualifying property purchased during the year in excess of \$200,000. Limit expense to taxable income from active trade or business.	_____	_____	_____	_____
b)	For acquisitions of real estate, other than low-income housing, after December 31, 1980, and before January 1, 1987, determine that depreciation deductions are computed using the appropriate ACRS life and method.	_____	_____	_____	_____
c)	For acquisitions of real estate after December 31, 1986, determine if property is residential or non-residential property. Determine that Modified ACRS (MACRS) depreciation deductions are computed using straight-line, mid-month convention, 27.5-year life for residential rental and 31.5-year life for non-residential real property.	_____	_____	_____	_____
d)	For acquisitions after December 31, 1986, determine the ADR class life for each asset placed in service and appropriate depreciation method.	_____	_____	_____	_____
e)	Determine the applicable convention (e.g. half-year, mid-quarter). If more than 40% of MACRS property (except real estate) is placed in service during the last three months of the year use mid-quarter convention.	_____	_____	_____	_____
f)	For leasehold improvements made after December 31, 1986, determine that the cost is being recovered over the applicable recovery period, REGARDLESS of the lease period.	_____	_____	_____	_____
g)	Consider electing the alternative depreciation system for property placed in service during the year.	_____	_____	_____	_____

INDIVIDUAL TAX RETURN PREPARATION AND REVIEW CHECKLIST
1988 - FORM 1040

		<u>DONE</u>	<u>NOT DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
D)	DEPRECIATION (Concluded)				
D2)	Make adjustments for depreciable assets which are demolished, obsolete, abandoned and/or out of service. Consider investment credit recapture.	_____	_____	_____	_____
D3)	For assets placed in service after June 18, 1984, that are used partly for business and partly for personal use (i.e. autos, computers, airplanes, boats):				
a)	Consider maximum depreciation under the luxury auto rules.	_____	_____	_____	_____
b)	For autos, determine limitation if business usage is 50% or less.	_____	_____	_____	_____
c)	Determine limitation for all other mixed-use property, if business usage is 50% or less.	_____	_____	_____	_____
d)	For leased vehicles and property, determine business and personal usages and calculate appropriate income to be reported by referring to the IRS tables.	_____	_____	_____	_____
e)	Inquire if the taxpayer has kept the required records indicating the business and personal use of property.	_____	_____	_____	_____
f)	For listed property acquired after April, 1984, determine recapture if business use is 50% or less.	_____	_____	_____	_____
D4)	Determine if property/equipment leases are operating leases or capital leases.	_____	_____	_____	_____
D5)	Form 4562:				
a)	Reconcile depreciation expense to supporting schedules.	_____	_____	_____	_____
b)	Complete all questions regarding personal use of listed property.	_____	_____	_____	_____
c)	Determine that all amortizable items are separately stated and the proper Code Section cited.	_____	_____	_____	_____

INDIVIDUAL TAX RETURN PREPARATION AND REVIEW CHECKLIST
1988 - FORM 1040

	<u>DONE</u>	<u>NOT DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>																					
TAX COMPUTATION AND CREDITS																									
E1) Alternative minimum tax must be computed by making adjustments such as:																									
a) Depreciation on property placed in service, after December 31, 1986 (or July 31, 1986, if election was made), must be recomputed using an alternative system; generally,																									
<table border="0" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="text-align: left; width: 30%;"><u>Type</u></th> <th style="text-align: left; width: 30%;"><u>Method</u></th> <th style="text-align: left; width: 30%;"><u>Period</u></th> </tr> </thead> <tbody> <tr> <td>Realty</td> <td>Straight-Line</td> <td>40 Years</td> </tr> <tr> <td>Personal Property</td> <td></td> <td></td> </tr> <tr> <td> With No Class</td> <td></td> <td></td> </tr> <tr> <td> Life</td> <td>150DB</td> <td>12 Years</td> </tr> <tr> <td>Other Personal</td> <td></td> <td></td> </tr> <tr> <td> Property</td> <td>150DB</td> <td>Class Life</td> </tr> </tbody> </table>	<u>Type</u>	<u>Method</u>	<u>Period</u>	Realty	Straight-Line	40 Years	Personal Property			With No Class			Life	150DB	12 Years	Other Personal			Property	150DB	Class Life				
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Property	150DB	Class Life																							
b) Research & development, and mining, exploration & development costs must be capitalized and amortized over a ten-year period.																									
c) Income from long-term contracts entered into after February 28, 1986 must be computed using the percentage-of-completion method of accounting.																									
d) Income from post-February 28, 1986, dispositions of real or personal property held for sale in the ordinary course of business shall be determined without regard to the installment method, except in cases where an election is made to pay interest on the tax deferred by the installment period.																									
e) An AMT net operating loss (NOL) deduction is allowed in place of the regular NOL deduction. Post-1986 AMT NOL is available only to extent of 90% of pre-NOL AMTI.																									
f) If different, calculations requiring tax basis must use the AMT adjusted basis.																									
g) Itemized deductions adjusted for the following AMT rules:																									
1) No deduction is allowed for miscellaneous itemized deductions or most taxes.																									
2) Medical expenses are subject to a 10% floor.																									

INDIVIDUAL TAX RETURN PREPARATION AND REVIEW CHECKLIST
1988 - FORM 1040

		<u>DONE</u>	<u>NOT DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
E)	TAX COMPUTATION AND CREDITS (Continued)				
	3) Qualified housing interest expense is restricted.	_____	_____	_____	_____
	4) No phase-in is allowed for personal or investment interest expense.	_____	_____	_____	_____
	5) State tax refunds are excluded from AMTI.	_____	_____	_____	_____
h)	The following preference items must be added:				
	1) Excess depletion.	_____	_____	_____	_____
	2) Excess intangible drilling costs.	_____	_____	_____	_____
	3) The spread between the fair market value at the time of exercise and the purchase price of incentive stock options.	_____	_____	_____	_____
	4) Tax-exempt interest on private activity bonds issued after August 7, 1986.	_____	_____	_____	_____
	5) Appreciated property charitable deduction less the adjusted basis (include post-August 15, 1986 carryovers).	_____	_____	_____	_____
	6) Accelerated depreciation on real and leased personal property placed in service before January 1, 1987.	_____	_____	_____	_____
i)	Consider special rules denying certain losses for AMT purposes.				
	1) Net passive activity losses as adjusted for tax preferences (see Form 8582).	_____	_____	_____	_____
	2) Certain farm losses.	_____	_____	_____	_____
	3) Insolvent taxpayers.	_____	_____	_____	_____
j)	Consider only foreign tax credit in AMT computation.	_____	_____	_____	_____
E2)	Consider tax credits such as:				
	a) Child care credit.	_____	_____	_____	_____
	b) Credit for the elderly.	_____	_____	_____	_____
	c) Residential energy credit carryover.	_____	_____	_____	_____

INDIVIDUAL TAX RETURN PREPARATION AND REVIEW CHECKLIST
1988 - FORM 1040

		<u>DONE</u>	<u>NOT DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
E)	TAX COMPUTATION AND CREDITS (Continued)				
E5)	Confirm with the taxpayer the amounts and dates of any federal, state and local estimated tax deposits for the year.	_____	_____	_____	_____
E6)	Determine if the taxpayer has paid excess FICA tax for which credit should be claimed.	_____	_____	_____	_____
E7)	If withholding and estimated tax payments are less than 90% of the tax liability, file Form 2210, if applicable.	_____	_____	_____	_____
E8)	Consider changes needed in estimated tax for the forthcoming year and set up estimated tax payments.	_____	_____	_____	_____
F)	OTHER REQUIREMENTS				
F1)	If the taxpayer sold partnership interests during year, determine that appropriate information was given to the partnership to enable it to prepare Form 8308.	_____	_____	_____	_____
F2)	Determine whether the taxpayer needs to complete IRS Form 8271, Investor Reporting Tax Shelter Registration, for use by investor in reporting shelter I.D. number.	_____	_____	_____	_____
F3)	Consider capitalizing carrying charges (interest, taxes, etc.) on non-productive property.	_____	_____	_____	_____
F4)	Consider the election to forego the net operating loss carryback:				
	a) If electing to forego - attach required statement.	_____	_____	_____	_____
	b) If carrying back - prepare 1045 or 1040X.	_____	_____	_____	_____
F5)	Consider Section 6661 that provides a 25% penalty for substantial understatement of tax liability. If this penalty could result from any income, deduction, loss, or credit item, then:				
	a) Consider if substantial authority exists for the item in question. If not, consider disclosure. (Form 8275).	_____	_____	_____	_____
	b) Consider advising the taxpayer, in writing, of the 25% penalty.	_____	_____	_____	_____

INDIVIDUAL TAX RETURN PREPARATION AND REVIEW CHECKLIST
1988 - FORM 1040

		<u>DONE</u>	<u>NOT DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
F)	OTHER REQUIREMENTS (Continued)				
F6)	Inquire if the taxpayer made gifts in excess of \$10,000 (or any applicable state minimum) to any individual during the year. Include gifts in connection with below-market loans to related parties.	_____	_____	_____	_____
F7)	Prepare state income tax returns. Review each state's modification requirements.	_____	_____	_____	_____
F8)	Attach extension requests to tax return.	_____	_____	_____	_____
F9)	Prepare filing instructions and transmittal letter to the taxpayer.	_____	_____	_____	_____
F10)	Advise any taxpayers with qualified plans of the return filing requirements.	_____	_____	_____	_____
F11)	If the taxpayer has made an "applicable asset acquisition" (transfer of assets that constitute a trade or business), determine that applicable reporting requirements regarding allocation of purchase price have been met.	_____	_____	_____	_____
F12)	Consider making election (not available after 1988) to use "grandfather" rules for accrued benefits in qualified plans having a value of at least \$562,500 (see Form 5329).	_____	_____	_____	_____
F13)	Consider need to disclose taxable income information to preparer of returns of dependents under the age of 14.	_____	_____	_____	_____
F14)	Note any tax planning suggestions below.	_____	_____	_____	_____

COMMENTS OR EXPLANATIONS:

Please Note

Two pages were inadvertently left out in the printing of the *1988 Tax Practice Guides and Checklists*.

- Insert new page III-4(A) after page III-4.
- Remove III-15 through III-17 and insert new pages III-15 through III-18.

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old III-15-III-17
not removed

INDIVIDUAL TAX RETURN PREPARATION AND REVIEW CHECKLIST
1988 - FORM 1040

		<u>DONE</u>	<u>NOT DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
E)	TAX COMPUTATION AND CREDITS (Continued)				
	3) Qualified housing interest expense is restricted.	_____	_____	_____	_____
	4) No phase-in is allowed for personal or investment interest expense.	_____	_____	_____	_____
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h)	The following preference items must be added:				
	1) Excess depletion.	_____	_____	_____	_____
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1988 - FORM 1040

		<u>DONE</u>	<u>NOT DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
E)	TAX COMPUTATION AND CREDITS (Continued)				
	d) Business energy credits.	_____	_____	_____	_____
	e) Foreign tax credit.	_____	_____	_____	_____
	f) Investment tax credit (rehabilitation, transition and carryovers).	_____	_____	_____	_____
	g) Jobs credit.	_____	_____	_____	_____
	h) Credit for federal tax on gasoline, special fuels and lubricating oil.	_____	_____	_____	_____
	i) Earned income credit.	_____	_____	_____	_____
	j) AMT credit carryover.	_____	_____	_____	_____
E3)	Determine if, based upon nature of income and deductions, sale of assets, etc., the taxpayer is subject to:				
	a) Self-employment tax.	_____	_____	_____	_____
	b) Investment credit recapture.	_____	_____	_____	_____
	c) Social security tax on tip income.	_____	_____	_____	_____
	d) Tax on premature distributions or overfunding of IRAs or other qualified plans.	_____	_____	_____	_____
	e) Tax on excess distributions from qualified plans.	_____	_____	_____	_____
	f) Tax on trust accumulation distributions.	_____	_____	_____	_____
E4)	Consider all options for lump-sum distributions from retirement plans:				
	a) The one-time election for five-year averag- ing available only after age 59-1/2.	_____	_____	_____	_____
	b) Election to treat capital gains portion as ordinary income.	_____	_____	_____	_____
	c) The transition rule - taxpayers reaching 50 before 1986 have a one-time election to:				
	1) Elect capital gains without regard to five-year phase-out, and	_____	_____	_____	_____
	2) Elect either five-year averaging with current year rates or ten- year averaging with 1986 tax rates.	_____	_____	_____	_____

INDIVIDUAL TAX RETURN PREPARATION AND REVIEW CHECKLIST
1988 - FORM 1040

		<u>DONE</u>	<u>NOT DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
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E8)	Consider changes needed in estimated tax for the forthcoming year and set up estimated tax payments.	_____	_____	_____	_____
F)	OTHER REQUIREMENTS				
F1)	If the taxpayer sold partnership interests during year, determine that appropriate information was given to the partnership to enable it to prepare Form 8308.	_____	_____	_____	_____
F2)	Determine whether the taxpayer needs to complete IRS Form 8271, Investor Reporting Tax Shelter Registration, for use by investor in reporting shelter I.D. number.	_____	_____	_____	_____
F3)	Consider capitalizing carrying charges (interest, taxes, etc.) on non-productive property.	_____	_____	_____	_____
F4)	Consider the election to forego the net operating loss carryback:				
	a) If electing to forego - attach required statement.	_____	_____	_____	_____
	b) If carrying back - prepare 1045 or 1040X.	_____	_____	_____	_____
F5)	Consider Section 6661 that provides a 25% penalty for substantial understatement of tax liability. If this penalty could result from any income, deduction, loss, or credit item, then:				
	a) Consider if substantial authority exists for the item in question. If not, consider disclosure. (Form 8275).	_____	_____	_____	_____
	b) Consider advising the taxpayer, in writing, of the 25% penalty.	_____	_____	_____	_____

INDIVIDUAL TAX RETURN PREPARATION AND REVIEW CHECKLIST
1988 - FORM 1040

		<u>DONE</u>	<u>NOT DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
F)	OTHER REQUIREMENTS (Continued)				
F6)	Inquire if the taxpayer made gifts in excess of \$10,000 (or any applicable state minimum) to any individual during the year. Include gifts in connection with below-market loans to related parties.	_____	_____	_____	_____
F7)	Prepare state income tax returns. Review each state's modification requirements.	_____	_____	_____	_____
F8)	Attach extension requests to tax return.	_____	_____	_____	_____
F9)	Prepare filing instructions and transmittal letter to the taxpayer.	_____	_____	_____	_____
F10)	Advise any taxpayers with qualified plans of the return filing requirements.	_____	_____	_____	_____
F11)	If the taxpayer has made an "applicable asset acquisition" (transfer of assets that constitute a trade or business), determine that applicable reporting requirements regarding allocation of purchase price have been met.	_____	_____	_____	_____
F12)	Consider making election (not available after 1988) to use "grandfather" rules for accrued benefits in qualified plans having a value of at least \$562,500 (see Form 5329).	_____	_____	_____	_____
F13)	Consider need to disclose taxable income information to preparer of returns of dependents under the age of 14.	_____	_____	_____	_____
F14)	Note any tax planning suggestions below.	_____	_____	_____	_____

COMMENTS OR EXPLANATIONS:

SHORT VERSION INDIVIDUAL TAX RETURN PREPARATION & REVIEW CHECKLIST
1988 - FORM 1040

Client Name: _____ Client Number: _____

Interviewed by: _____ Date Completed/Hours: _____

Prepared by: _____ Date Completed/Hours: _____

Reviewed by: _____ Date Completed/Hours: _____

Return Due Date: _____ Extension Due Date: _____

		NOT DONE	COMMENTS OR N/A EXPLANATION
A) <u>GENERAL INFORMATION</u>			
A1)	Review and update basic taxpayer information (address, dependents, etc.).	_____	_____
A2)	Review prior return, workpapers, etc.	_____	_____
A3)	Check for carryovers.	_____	_____
B) <u>INCOME</u>			
B1)	Determine if any alimony paid or received.	_____	_____
B2)	Determine if accounting methods used are comparable to the preceding year unless changes are approved or required (vacation pay, uniform capitalization, long-term contract, etc.).	_____	_____
B3)	Determine that all current adjustments from changes in accounting method and period are reported (e.g., bad debt reserve, uniform capitalization, 1987 short year K-1's, etc.).	_____	_____
B4)	Sale or other disposition of property:		
a)	Check for recapture items.	_____	_____
b)	Review interest rates on debt instruments.	_____	_____
c)	Consider installment reporting for sales that qualify (reminder: generally, dealer sales after December 31, 1987, do not qualify).	_____	_____
d)	Report proper amount from pledging installment receivables.	_____	_____
e)	Determine proper amount to be reported as a Section 481 adjustment (4-year spread) from pre-1988 installment sales that were subject to proportionate disallowance.	_____	_____

SHORT VERSION INDIVIDUAL TAX RETURN PREPARATION & REVIEW CHECKLIST
1988 - FORM 1040

	<u>DONE</u>	<u>NOT DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
B) <u>INCOME</u> (Continued)				
f) Determine amounts taxable and/or deferred from sale of personal residence.	_____	_____	_____	_____
B5) Determine proper reporting of all annuities, and qualified retirement plans, IRA's, etc.	_____	_____	_____	_____
B6) Consider passive activity loss limitations and carryovers.	_____	_____	_____	_____
B7) Review all K-1's to determine that all items have been properly reported.	_____	_____	_____	_____
B8) Inquire about other possible sources of income (such as salaries, dividends, interest, rents, taxable fringe benefits, etc.).	_____	_____	_____	_____
C) <u>DEDUCTIONS</u>				
C1) Consider home office deduction limitations and carryovers.	_____	_____	_____	_____
C2) Determine applicability of moving expense deduction.	_____	_____	_____	_____
C3) Determine if the taxpayer is entitled to deduction for contribution to IRA, Keogh, etc.	_____	_____	_____	_____
C4) Determine the proper allocation to and limitations on deductions for interest and other expenses relating to:				
a) Investment expenditures.	_____	_____	_____	_____
b) Personal (consumer) expenditures.	_____	_____	_____	_____
c) Qualified residence interest.	_____	_____	_____	_____
d) Trade or business expenditures.	_____	_____	_____	_____
e) Passive activity expenditures.	_____	_____	_____	_____
f) Tax-exempt investments.	_____	_____	_____	_____
g) Capitalization of interest during construction.	_____	_____	_____	_____
h) Interest on qualified plan loans.	_____	_____	_____	_____
i) Meals and entertainment expenses (80%).	_____	_____	_____	_____
C5) Consider requirement to file Form 8283 for charitable contributions other than cash.	_____	_____	_____	_____

SHORT VERSION INDIVIDUAL TAX RETURN PREPARATION & REVIEW CHECKLIST
1988 - FORM 1040

		<u>DONE</u>	<u>NOT DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
C)	<u>DEDUCTIONS</u> (Continued)				
	C6) Consider all depreciation requirements and options including:				
	a) Election to expense up to \$10,000 of certain assets.	_____	_____	_____	_____
	b) Separate rules for non-recovery property, ACRS and MACRS.	_____	_____	_____	_____
	c) Requirements relating to listed property.	_____	_____	_____	_____
	d) Determine if leases are operating leases or capital leases.	_____	_____	_____	_____
	7) Determine that all amortizable items are written off over the correct period.	_____	_____	_____	_____
	8) Inquire about other possible deductions (such as charitable contributions, medical expense, taxes, employee business expense, worthless securities, casualty losses, vacation homes, etc.).	_____	_____	_____	_____
D)	<u>TAX COMPUTATION AND CREDITS</u>				
	D1) Compute alternative minimum tax.	_____	_____	_____	_____
	D2) Compute self-employment tax.	_____	_____	_____	_____
	D3) Compute all applicable credits including carryovers.	_____	_____	_____	_____
	D4) Compute investment credit recapture.	_____	_____	_____	_____
	D5) Compute tax on premature distributions from retirement accounts and annuities.	_____	_____	_____	_____
	D6) Claim credit for excess FICA.	_____	_____	_____	_____
	D7) Prepare estimated tax vouchers for next year.	_____	_____	_____	_____
E)	<u>OTHER REQUIREMENTS</u>				
	E1) Prepare Form 8271 to report tax shelter registration numbers, etc.	_____	_____	_____	_____
	E2) Consider capitalization of carrying charges on non-productive property.	_____	_____	_____	_____
	E3) Consider election to forego net operating loss carryback.	_____	_____	_____	_____

SHORT VERSION INDIVIDUAL TAX RETURN PREPARATION & REVIEW CHECKLIST
1988 - FORM 1040

		<u>DONE</u>	<u>NOT DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
E)	<u>OTHER REQUIREMENTS</u> (Continued)				
E4)	Consider various options for taxing lump-sum distributions from retirement plans.	_____	_____	_____	_____
E5)	Inquire if the taxpayer has required records for travel, entertainment and listed property deductions.	_____	_____	_____	_____
E6)	Consider risk of 25% penalty for substantial understatement of tax liability.	_____	_____	_____	_____
E7)	Determine if gift tax return is required.	_____	_____	_____	_____
E8)	Advise taxpayers with qualified plans of return filing requirements.	_____	_____	_____	_____
E9)	Prepare state income tax returns.	_____	_____	_____	_____
E10)	Consider grandfather election (not available after 1988) if accrued benefits in qualified retirement plans equal or exceed \$562,500 (see Form 5329).	_____	_____	_____	_____
E11)	Prepare list of carryovers to next year.	_____	_____	_____	_____
E12)	Consider need to disclose taxable income information to preparer of returns of dependents under the age of 14.	_____	_____	_____	_____
E13)	Note any tax planning suggestions below.	_____	_____	_____	_____

COMMENTS OR EXPLANATIONS

FIDUCIARY TAX RETURN PREPARATION AND REVIEW CHECKLIST
1988 - FORM 1041

Client Name: _____ Client Number: _____

Interviewed by: _____ Date Completed/Hours: _____

Prepared by: _____ Date Completed/Hours: _____

Reviewed by: _____ Date Completed/Hours: _____

Return Due Date: _____ Extension Due Date: _____

		<u>DONE</u>	<u>NOT DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
A) GENERAL INFORMATION:					
A1)	Review the trust or estate's name, address, fiscal year, type of entity, identification number and date entity was created. (Trust returns must be calendar year).	_____	_____	_____	_____
A2)	Review prior year returns, memos, workpapers and correspondence files.	_____	_____	_____	_____
A3)	If the trust or estate has been examined by the Internal Revenue Service:				
	a) Obtain copies of the revenue agent's reports.	_____	_____	_____	_____
	b) Verify that the agent's adjustments have been entered in the trust's records.	_____	_____	_____	_____
	c) If any of the agent's adjustments affect the income tax returns of years other than those audited, consider amendments.	_____	_____	_____	_____
	d) Consider whether amended state tax returns should be filed to reflect adjustments.	_____	_____	_____	_____
A4)	Verify that a copy of the trust or will is in the permanent file and document the various provisions which determine the tax treatment of income, corpus, and distributions. Check for amendments, revisions, etc., since last review and for effect of litigation.	_____	_____	_____	_____
A5)	Check for carryover items such as:				
	a) Prior year overpayment credited to estimate.	_____	_____	_____	_____
	b) Net operating loss.	_____	_____	_____	_____
	c) Capital loss.	_____	_____	_____	_____
	d) Investment credit.	_____	_____	_____	_____

FIDUCIARY TAX RETURN PREPARATION AND REVIEW CHECKLIST
1988 - FORM 1041

	<u>DONE</u>	<u>NOT DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
A) GENERAL INFORMATION (Continued)				
e) Installment sales.	_____	_____	_____	_____
f) Foreign tax credit.	_____	_____	_____	_____
g) Other general business credits.	_____	_____	_____	_____
h) Four year ratable inclusion of short period income from partnerships, S corporations and trusts that changed to a required (calendar) tax year in 1987.	_____	_____	_____	_____
i) Change of accounting adjustments (sec. 481):				
1) Bad debt reserve				
2) Uniform capitalization				
3) Other Section 481 adjustments such as proportionate disallowance, overall change of method, etc.	_____	_____	_____	_____
j) Alternative minimum tax credit carryover.	_____	_____	_____	_____
k) Update schedule of carryforward income, deductions, and credits.	_____	_____	_____	_____
A6) Inquire if the trust or estate has made or received any below-market loans. If so, determine imputed interest consequences.	_____	_____	_____	_____
A7) Determine method of accounting - cash, accrual or other.	_____	_____	_____	_____
A8) Review prior year returns for items which may have an effect upon or require similar treatment in the current year.	_____	_____	_____	_____
A9) Check if any of the beneficiaries' names or addresses changed during the taxable year.	_____	_____	_____	_____
A10) Determine if there has been any change in income interests of beneficiaries during the year and document.	_____	_____	_____	_____

FIDUCIARY TAX RETURN PREPARATION AND REVIEW CHECKLIST
1988 - FORM 1041

	<u>DONE</u>	<u>NOT DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
A) GENERAL INFORMATION (Continued)				
A11) For a complex trust, determine accounting income as provided under the trust document.	_____	_____	_____	_____
A12) Ascertain whether this trust is taxed as a corporation. If so, go to the 1120 checklist.	_____	_____	_____	_____
A13) Grantor Trusts: consider filing requirements for both state and federal returns. Under certain circumstances form 1041 may not be required.	_____	_____	_____	_____
A14) Review powers of spouse or others which may cause grantor trust application.	_____	_____	_____	_____
B) INCOME				
B1) Compare sources of dividends and interest income with prior year items. Identity of payer should agree with 1099.	_____	_____	_____	_____
B2) Review dividends in order to segregate taxable, non-taxable and capital gain portions.	_____	_____	_____	_____
B3) Update the trust or estate carryforward data schedule for any non-taxable dividends or dividends reinvested.	_____	_____	_____	_____
B4) Determine if the trust or estate had investment income from foreign companies and if tax was withheld at the source.	_____	_____	_____	_____
B5) Disclose exempt interest on state and municipal bonds on the federal return. Determine deductible portion of administrative expense.	_____	_____	_____	_____
B6) Exclude interest on United States securities from the state returns. Consider whether municipal bond interest excluded on federal should be added back on state return.	_____	_____	_____	_____
B7) Review reporting of any state tax refunds based on the tax benefit rule.	_____	_____	_____	_____

FIDUCIARY TAX RETURN PREPARATION AND REVIEW CHECKLIST
1988 - FORM 1041

	<u>DONE</u>	<u>NOT DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
B) INCOME (Continued)				
B8) For all businesses of the taxpayer:				
a) Determine that accounting methods used comparable to the preceding period.	_____	_____	_____	_____
b) Consider the new \$25 million or less gross receipts test for family farming entities in order to continue use of cash basis. This applies to trusts which are treated by the IRS as corporations.	_____	_____	_____	_____
B9) Sale or other dispositions of property:				
a) Determine that installment sales are reported properly.	_____	_____	_____	_____
1) Determine that the full amount of depreciation recapture is reported in the year of sale.	_____	_____	_____	_____
2) Review for appropriate interest rates on debt instruments received in connection with the sale. Determine whether any interest rate/income adjustments are necessary.	_____	_____	_____	_____
b) Dealer Sales:				
1) Determine that the installment method is not used to report post December 31 1987 sales of dealer property. (Exceptions: farm property; certain time share rights; and residential lots if proper election is made.)	_____	_____	_____	_____
2) Determine that the interest owed as a result of an election in 1) above is reported properly.	_____	_____	_____	_____
3) For sales occurring after February 28, 1986 and before January 1, 1988, compute Section 481 adjustments, and consider application of three year payment provisions for amounts attributable to the proportionate disallowance rules.	_____	_____	_____	_____

FIDUCIARY TAX RETURN PREPARATION AND REVIEW CHECKLIST
1988 - FORM 1041

	<u>DONE</u>	<u>NOT DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
B) INCOME (Continued)				
c) Consider special rules for installment reporting by certain non-dealers of real property used in the trade or business or for the production of rental income where the sales price exceeds \$150,000 (Section 453A).	_____	_____	_____	_____
1) Compute the interest payment on any deferred tax liability if the face amount of all obligations arising from this type of disposition exceeds \$5,000,000.	_____	_____	_____	_____
2) Determine that the proper amount is treated as a collection on any pledged installment obligation.	_____	_____	_____	_____
d) Consider electing out of installment reporting.	_____	_____	_____	_____
e) If another property was sold, exchanged, or involuntarily converted during the year, consider the provisions relating to:				
1) Non-recognition of gain or loss.	_____	_____	_____	_____
2) Recapture of depreciation and/or investment tax credit (home office and related equipment).	_____	_____	_____	_____
f) Review the possibility of the wash sale rules being applicable to stock sales.	_____	_____	_____	_____
g) Inquire whether the trust or estate has any worthless securities or other bad debts to be reflected in the current year return.	_____	_____	_____	_____
h) If there are any Section 1231 gains, determine the amounts, if any, subject to ordinary income treatment as a result of prior years' Section 1231 losses.	_____	_____	_____	_____
B10) Review all K-1's to determine that all items have been properly included.	_____	_____	_____	_____
B11) Passive activity:				
a) Losses from an activity may be limited if the trust or estate has any of the following (see Passive Activity Checklist):				

FIDUCIARY TAX RETURN PREPARATION AND REVIEW CHECKLIST
1988 - FORM 1041

	<u>DONE</u>	<u>NOT DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
B) INCOME (Continued)				
1) The trust or estate is involved in a trade or business in which the trust does not materially participate.	_____	_____	_____	_____
2) The trust or estate has any rental activity other than hotels, car rentals and similar activities in which substantial services are provided.	_____	_____	_____	_____
3) The trust or estate is a limited partner or qualified S corporation shareholder.	_____	_____	_____	_____
b) Working interests in oil and gas properties (except if held in a limited partnership or S corporation) are generally excluded from passive activity limitations.	_____	_____	_____	_____
c) If the return is for an estate, determine if the \$25,000 exemption from passive loss rule applies for actively managed real estate.	_____	_____	_____	_____
B12) If first return of an estate, determine if the proper allocation has been made for all items of income, deductions and credits between decedents final return and this return.	_____	_____	_____	_____
B13) If this is a final return for the trust or estate ascertain the deductions to be carried to the returns of the beneficiaries.	_____	_____	_____	_____
B14) If the taxpayer recovered amounts previously deducted, determine if the full benefit was received from prior years' deductions.	_____	_____	_____	_____
B15) Determine if the taxpayer has an S corporation or partnership loss carryforward not utilized due to insufficient basis and determine if additional basis has been generated in current years to deduct all or a portion of the unused losses.	_____	_____	_____	_____
B16) If the taxpayer is a qualified S corporation shareholder that made loans to the corporation to utilize losses, check for gain on repayment.	_____	_____	_____	_____

FIDUCIARY TAX RETURN PREPARATION AND REVIEW CHECKLIST
1988 - FORM 1041

	<u>DONE</u>	<u>NOT DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
C) DEDUCTIONS				
C1) For all businesses of the trust:				
a) Determine if accounting methods used are comparable to the preceding period.	_____	_____	_____	_____
b) Vacation pay accrual:				
1) Review taxpayer's policy to determine if a deduction is allowable on the accrual basis and that accrued vacation will be taken/paid within two and one-half months.	_____	_____	_____	_____
2) Consider that the 1987 Act repealed the Section 463 vacation rules and any taxpayer which is required to change accounting methods must recognize the adjustment over a maximum of four years.	_____	_____	_____	_____
c) Consider the uniform capitalization rules (this applies to self-constructed assets, resalers with average receipts in excess of \$10 million including attribution and all manufacturers).	_____	_____	_____	_____
1) Determine that all costs are included- those capitalized under old law full absorption, as well as a portion of following costs required under the 1986 and 1987 Acts:				
A) Taxes (other than income taxes).	_____	_____	_____	_____
B) Tax depreciation/amortization.	_____	_____	_____	_____
C) Percentage depletion.	_____	_____	_____	_____
D) Administration costs.	_____	_____	_____	_____
E) Support function/department.	_____	_____	_____	_____
F) Officer's compensation.	_____	_____	_____	_____
G) Insurance costs.	_____	_____	_____	_____
H) Retirement plan contributions, including past service costs. New for 1988.	_____	_____	_____	_____
I) Rework labor/scrap/spoilage.	_____	_____	_____	_____
J) Purchasing.	_____	_____	_____	_____

FIDUCIARY TAX RETURN PREPARATION AND REVIEW CHECKLIST
1988 - FORM 1041

		<u>DONE</u>	<u>NOT DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
C)	DEDUCTIONS (Continued)				
	K) Bidding expense on awarded contracts.	_____	_____	_____	_____
	L) Storage.	_____	_____	_____	_____
	M) Quality control.	_____	_____	_____	_____
2)	Consider advantages and disadvantages of electing the "simplified" method for resalers.	_____	_____	_____	_____
3)	Consider interest capitalization rules for debt incurred to produce property.	_____	_____	_____	_____
4)	If the beginning inventory is revalued, ascertain the amount of adjustment required for the beginning inventory due to the change in method of accounting (Section 481). Ascertain Section 481 forward spread period (not to exceed four years).	_____	_____	_____	_____
5)	If Section 263A applies, determine that Form 3115 and the 263A checklist were filed with the tax return in the year of change. If not, these forms must be filed with the 1988 tax return. (See IRS Notice 88-92.)	_____	_____	_____	_____
6)	For farmers and ranchers, consider one-time election out of uniform capitalization rules if election was not required in a prior year.	_____	_____	_____	_____
d)	For long-term contracts entered into after February 28, 1986:				
1)	Determine that trusts or estates reporting under the completed-contract method recognize 40% (70% post October 13, 1987 contracts) of the related income on the percentage-of-completion method. (Exceptions - contracts completed within two years and annual average company receipts less than \$10 million.)	_____	_____	_____	_____
2)	Consider the 1986 Act modification to the percentage-of-completion method:				
	A) Completion percentage based on costs, not work performed.	_____	_____	_____	_____

FIDUCIARY TAX RETURN PREPARATION AND REVIEW CHECKLIST
1988 - FORM 1041

	<u>DONE</u>	<u>NOT DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
C) DEDUCTIONS (Continued)				
B) Expanded requirement to capitalize costs similar to uniform capitalization rules.	_____	_____	_____	_____
C) Requirement to compute prior year estimate inaccuracies with actual costs at completion of the contract and pay interest on related unpaid prior year taxes ("Look-Back Rule").	_____	_____	_____	_____
e) Determine whether the trust or estate has filed, by paper and/or magnetic media, all the information returns (1099's and 1098's) and whether they have included the personal use portion of autos, etc., in the employee's W-2.	_____	_____	_____	_____
C2) Complete Schedule C or F (Form 1040) for schedule of cost of operations and verify that beginning and ending inventory agree with books.	_____	_____	_____	_____
C3) Inquire whether the trust or estate can substantiate by adequate records, as required under IRC Section 274(d), expenses claimed for entertainment, entertainment facilities, gifts and travel. Limit meals and entertainment to 80%. Limit deductible "gifts" to \$25.	_____	_____	_____	_____
C4) Prepare a schedule of other deductions. For 1988 returns, apply the 2% limitation to expenses other than direct trust or estate expenses. Determine which administrative expenses are not subject to the 2% rule. Determine the deductible portion of administrative expenses based on the ratio of taxable to entire income.	_____	_____	_____	_____
C5) Determine if the trust or estate is entitled to an estate tax deduction on income in respect of a decedent and allocate between the beneficiaries and estate or trust. Section 691(c).	_____	_____	_____	_____
C6) Investment interest:				
a) Limit the trust or estate's deduction for investment interest to net investment income.	_____	_____	_____	_____

FIDUCIARY TAX RETURN PREPARATION AND REVIEW CHECKLIST
1988 - FORM 1041

	<u>DONE</u>	<u>NOT DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
C) DEDUCTIONS (Continued)				
b) Consider the phase-out for estates of the \$10,000 deductible amount (40% allocation in 1988). See section 163 (d).	_____	_____	_____	_____
c) Reduce net investment income by net passive activity losses (other than rental real estate activities in which the trust or estate actively participates) which are allowed by virtue of the phase-out provisions.	_____	_____	_____	_____
d) In computing net investment income, deduct investment expenses after the application of the 2% AGI floor.	_____	_____	_____	_____
C7) Personal interest:				
a) Deduct only 40% of the interest attributable to personal (consumer) items.	_____	_____	_____	_____
b) Treat interest on tax deficiencies as personal interest.	_____	_____	_____	_____
C8) Allocation of interest expense:				
a) Determine that the proper allocations have been made dividing interest expense among:				
1) Trade or business expenditures.	_____	_____	_____	_____
2) Investment expenditures.	_____	_____	_____	_____
3) Passive activity expenditures.	_____	_____	_____	_____
4) Personal expenditures.	_____	_____	_____	_____
5) Tax-exempt investments.	_____	_____	_____	_____
b) For interest on debts allocated to more than one expenditure, determine that the proper ordering of loan repayments has been considered.	_____	_____	_____	_____
c) Determine that the debt has been properly reallocated to the expenditure when either:				
1) The subject of the first expenditure has been disposed of and the proceeds are used for another expenditure; or	_____	_____	_____	_____

FIDUCIARY TAX RETURN PREPARATION AND REVIEW CHECKLIST
1988 - FORM 1041

	<u>DONE</u>	<u>NOT DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
C) DEDUCTIONS (Continued)				
2) The character of the expenditure has changed.	_____	_____	_____	_____
C9) Other interest considerations:				
a) Treat amortizable bond premiums (for bonds acquired after October 22, 1986) as interest expense.	_____	_____	_____	_____
b) Consider the capitalization of interest when the taxpayer is constructing or producing real or tangible personal property which:				
1) has a class life of 20 years or more,	_____	_____	_____	_____
2) has an estimated production period exceeding two years, or	_____	_____	_____	_____
3) has an estimated production period exceeding one year and a cost exceeding \$1,000,000.	_____	_____	_____	_____
c) Eliminate interest expense on debts with respect to group term life insurance policies (purchased after June 20, 1986) on beneficial owners and key employees to the extent that the total of such loans exceed \$50,000.	_____	_____	_____	_____
C10) Consider disallowance of double deductions, i.e. items claimed on form 706.	_____	_____	_____	_____
C11) Consider unused losses and deductions to be transferred to beneficiaries in final year.	_____	_____	_____	_____
C12) Determine if there is a qualifying 65-day distribution.	_____	_____	_____	_____
D) DEPRECIATION				
D1) Consider various depreciation methods and lives (for 1987-1988 acquisitions consult Rev. Proc. 87-57 tables):				
a) Determine that no Section 179 election to expense certain depreciable assets has been made since this election is not allowed to estates and trusts.	_____	_____	_____	_____

FIDUCIARY TAX RETURN PREPARATION AND REVIEW CHECKLIST
1988 - FORM 1041

		<u>DONE</u>	<u>NOT DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
D)	DEPRECIATION (Continued)				
	b) For acquisitions of real estate, other than low-income housing, after December 31, 1980 and before January 1, 1987, determine that depreciation deductions are computed using the appropriate ACRS life and method.	_____	_____	_____	_____
	c) For acquisitions of real estate after December 31, 1986, determine if property is residential or non-residential property. Determine that modified ACRS (MACRS) depreciation deductions are computed using straight-line, mid-month convention, 27.5-year life for residential rental and 31.5-year life for non-residential real property.	_____	_____	_____	_____
	d) For acquisitions after December 31, 1986, determine the ADR class life for each asset placed in service and appropriate depreciation method.	_____	_____	_____	_____
	e) Determine the applicable convention (e.g. half-year, mid-quarter). If more than 40% of MACRS property (except real estate) is placed in service during the last three months of the year use mid-quarter convention.	_____	_____	_____	_____
	f) For leasehold improvements made after December 31, 1986, determine that the cost is being recovered over the applicable recovery period, REGARDLESS of the lease period.	_____	_____	_____	_____
	g) Consider electing the alternative depreciation system for property placed in service during the year.	_____	_____	_____	_____
D2)	Make adjustments for depreciable assets which are demolished, obsolete, abandoned and/or out of service. Consider investment credit recapture.	_____	_____	_____	_____
D3)	For assets placed in service after June 18, 1984, that are used partly for business and partly for personal use (i.e., autos, computers, airplanes, boats):				
	a) For autos, consider the maximum allowable under the luxury auto rules.	_____	_____	_____	_____

FIDUCIARY TAX RETURN PREPARATION AND REVIEW CHECKLIST
1988 - FORM 1041

		<u>DONE</u>	<u>NOT DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
D)	DEPRECIATION (Continued)				
	b) For autos, determine limitation if the business usage is 50% or less.	_____	_____	_____	_____
	c) Determine limitations for all other mixed-use property, if the business usage is less than 50% or less.	_____	_____	_____	_____
	d) For leased vehicles and property, determine the business and personal usages and calculate the appropriate income to be reported by referring to the IRS tables.	_____	_____	_____	_____
	e) Inquire if the trust or estate has kept the required records indicating the business and personal use of property.	_____	_____	_____	_____
	f) For listed property acquired after April 1984, determine the recapture if the business usage 50% or less.	_____	_____	_____	_____
D4)	Determine if property/equipment leases are operating leases or capital leases.	_____	_____	_____	_____
D5)	Complete Schedule K-1 line depreciation information for each beneficiary.	_____	_____	_____	_____
D6)	Form 4562:				
	a) Reconcile depreciation expense to supporting schedules.	_____	_____	_____	_____
	b) Complete all questions regarding personal use of listed property.	_____	_____	_____	_____
	c) Determine that all amortizable items are separately stated and the proper Code Section cited.	_____	_____	_____	_____

E) TAX COMPUTATION AND CREDITS

- E1) Alternative minimum tax must be computed by making adjustments such as:
- a) Property placed in service after 12/31/86-depreciation must be recomputed using an alternative system, generally:

FIDUCIARY TAX RETURN PREPARATION AND REVIEW CHECKLIST
1988 - FORM 1041

DONE NOT COMMENTS OR
DONE DONE N/A EXPLANATION

E) TAX COMPUTATION AND CREDITS (Continued)

Type	Method	Periods
Realty	Straight-line	40 years
Personal property		
with no class life	150DB	12 years
Other personal property	150DB	Class Life

b)	Research & development, and mining, exploration & development costs must be capitalized and amortized over a 10-year period.	_____	_____	_____	_____
c)	Income from long-term contracts entered into after February 28, 1986 must be computed using the percentage-of-completion method of accounting for companies with average sales over 10 million dollars.	_____	_____	_____	_____
d)	Income from post-February 28, 1986 dispositions of real or personal property held for sale in the ordinary course of business shall be determined without regard to the installment method, except in cases where an election is made to pay interest on the tax deferred by the installment method.	_____	_____	_____	_____
e)	An AMT net operating loss (NOL) deduction is allowed in place of the regular NOL deduction. Post-1986 AMT NOL is available only to extent of 90% of pre-NOL AMTI.	_____	_____	_____	_____
f)	If different, calculations requiring tax basis must use the AMT adjusted basis.	_____	_____	_____	_____
g)	Itemized deductions adjusted for the following AMT rules:				
1)	No deduction is allowed for miscellaneous itemized deductions or most taxes.	_____	_____	_____	_____
2)	No phase-in is allowed for personal or investment interest expense.	_____	_____	_____	_____
3)	State tax refunds are excluded from AMTI.	_____	_____	_____	_____

FIDUCIARY TAX RETURN PREPARATION AND REVIEW CHECKLIST
1988 - FORM 1041

	<u>DONE</u>	<u>NOT DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
E) TAX COMPUTATION AND CREDITS (Continued)				
4) Qualified housing interest is restricted.	_____	_____	_____	_____
h) The following preference items must be added:				
1) Excess depletion.	_____	_____	_____	_____
2) Excess intangible drilling costs.	_____	_____	_____	_____
3) Tax-exempt interest on private activity bonds issued after August 7, 1986.	_____	_____	_____	_____
4) Accelerated depreciation on real and leased personal property placed in service before January 1, 1987.	_____	_____	_____	_____
5) Appreciated property charitable deduction less the adjusted basis (include post-August 15, 1986 carryovers)				
i) Consider special rules denying certain losses for AMT purposes:				
1) Net passive activity losses as adjusted for tax preferences (see Form 8582).	_____	_____	_____	_____
2) Certain farm losses.	_____	_____	_____	_____
3) Insolvent trusts.	_____	_____	_____	_____
j) Consider foreign tax credits only in AMT computation.	_____	_____	_____	_____
E2) Consider tax credits such as:				
a) Business energy credits.	_____	_____	_____	_____
b) Foreign tax credit.	_____	_____	_____	_____
c) Investment tax credit (rehabilitation, transition and carryovers).	_____	_____	_____	_____
d) Credit for federal tax on gasoline, special fuels and lubricating oil.	_____	_____	_____	_____
e) Jobs credit.	_____	_____	_____	_____
f) Prepare schedules that reflect each beneficiary's share of credit information.	_____	_____	_____	_____

FIDUCIARY TAX RETURN PREPARATION AND REVIEW CHECKLIST
1988 - FORM 1041

	<u>DONE</u>	<u>NOT DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
E) TAX COMPUTATIONS AND CREDITS (Continued)				
g) AMT credit carryover.	_____	_____	_____	_____
E3) Determine if, based upon the nature of the income and deductions and the sale of assets, etc., the trust or estate is subject to:				
a) Investment credit recapture.	_____	_____	_____	_____
b) Section 644 tax upon sale of appreciated property within 2 years after transfer to trust.	_____	_____	_____	_____
E4) Distribute each item on the beneficiaries' K-1's in accordance with provisions of the trust agreement or will.	_____	_____	_____	_____
E5) Reconcile accounting income per books with distributable net income.	_____	_____	_____	_____
E6) Confirm with trust or estate the amounts and dates of any federal, state and local estimated tax deposits for the year.	_____	_____	_____	_____
E7) If withholding and estimated tax payments are less than 90% of the tax liability, file Form 2210, if applicable.	_____	_____	_____	_____
E8) Consider changes needed in estimated tax for the forthcoming year and set up estimated tax payments.	_____	_____	_____	_____
F) OTHER REQUIREMENTS				
F1) If the trust or estate sold partnership interests during the year, determine that the appropriate information was given to the partnership to enable it to prepare form 8308.	_____	_____	_____	_____
F2) Determine whether the trust or estate needs to complete IRS Form 8271, Investor Reporting of Tax Shelter Registration, for use by investor in reporting shelter I.D. number.	_____	_____	_____	_____
F3) Consider capitalizing carrying charges (interest, taxes, etc.) on non-productive property.	_____	_____	_____	_____

FIDUCIARY TAX RETURN PREPARATION AND REVIEW CHECKLIST
1988 - FORM 1041

		<u>DONE</u>	<u>NOT DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
F)	OTHER REQUIREMENTS (Continued)				
F4)	Consider the election to forego the net operating loss carryback:				
	a) If electing to forego - attach required statement.	_____	_____	_____	_____
	b) If carrying back - prepare amended 1041.	_____	_____	_____	_____
F5)	Determine unused deductions available to beneficiaries in final year.	_____	_____	_____	_____
F6)	Determine that proper reporting has been provided for all items requested on Schedule K-1 that effect beneficiary's tax liability. Particular attention should be given to items affected by recent legislation.	_____	_____	_____	_____
F7)	Consider that Section 6661 provides a 25% penalty for substantial understatement of tax liability.	_____	_____	_____	_____
	a) If this penalty could result from any income, deduction, credit or loss item then:				
	1) Consider if substantial authority exists for the item in question. If not, consider disclosure (Form 8275).	_____	_____	_____	_____
	2) Determine if the trust is a tax shelter for purposes of Section 6661.	_____	_____	_____	_____
	3) Consider advising the trustees, in writing of the 25% penalty.	_____	_____	_____	_____
F8)	Determine if trust payments of estimated tax should be allocated to beneficiaries and file return in appropriate time period.	_____	_____	_____	_____
F9)	Prepare state income tax returns. Review each state's modification requirements.	_____	_____	_____	_____
F10)	Attach extension requests to tax returns.	_____	_____	_____	_____
F11)	Prepare filing instructions and transmittal letter to the trustee or executor.	_____	_____	_____	_____
F12)	If the taxpayer has made an "applicable asset acquisition" (transfer of assets that constitute a trade or business), determine that reporting requirements regarding allocation of purchase price have been met.	_____	_____	_____	_____

FIDUCIARY TAX RETURN PREPARATION AND REVIEW CHECKLIST
1988 - FORM 1041

	NOT <u>DONE</u>	<u>DONE</u>	<u>N/A</u>	COMMENTS OR <u>EXPLANATION</u>
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F) OTHER REQUIREMENTS (Continued)

F13) Note any tax planning suggestions below:

COMMENTS OR EXPLANATIONS:

PARTNERSHIP TAX RETURN PREPARATION AND REVIEW CHECKLIST
1988 - FORM 1065

Client Name: _____ Client Number: _____

Interviewed by: _____ Date Completed/Hours: _____

Prepared by: _____ Date Completed/Hours: _____

Reviewed by: _____ Date Completed/Hours: _____

Return Due Date: _____ Extension Due Date: _____

NOT
DONE DONE N/A COMMENTS OR
EXPLANATION

A) GENERAL INFORMATION

- | | | | | |
|---|--------------|--------------|--------------|--------------|
| <p>A1) Review for correctness and changes the partnership's and partners' names, address, fiscal year, business code, identification number and date business started.</p> | <p>_____</p> | <p>_____</p> | <p>_____</p> | <p>_____</p> |
| <p>A2) Review prior year returns, memos, work-papers and correspondence files.</p> | <p>_____</p> | <p>_____</p> | <p>_____</p> | <p>_____</p> |
| <p>A3) List the name, address and identifying number of the "Tax Matters" partners on Page 4.</p> | <p>_____</p> | <p>_____</p> | <p>_____</p> | <p>_____</p> |
| <p>A4) If the partnership has been examined by the Internal Revenue Service:</p> | | | | |
| <p>a) Obtain copies of the revenue agent's reports.</p> | <p>_____</p> | <p>_____</p> | <p>_____</p> | <p>_____</p> |
| <p>b) Determine that the agent's adjustments have been entered in the partnership's records.</p> | <p>_____</p> | <p>_____</p> | <p>_____</p> | <p>_____</p> |
| <p>c) If any of the agent's adjustments affect the income tax returns of years other than those audited, consider amendments.</p> | <p>_____</p> | <p>_____</p> | <p>_____</p> | <p>_____</p> |
| <p>d) Determine whether amended state tax returns should be filed to reflect adjustments.</p> | <p>_____</p> | <p>_____</p> | <p>_____</p> | <p>_____</p> |
| <p>A5) Verify that a copy of the partnership agreement is in the permanent file, or document why this is thought to be a partnership for federal income tax purposes. Verify that allocation of gains or losses are in accordance with Regulation 1.704-1(b).</p> | <p>_____</p> | <p>_____</p> | <p>_____</p> | <p>_____</p> |
| <p>A6) Determine method of accounting - cash, accrual or other.</p> | <p>_____</p> | <p>_____</p> | <p>_____</p> | <p>_____</p> |
| <p>A7) If the partnership is a cash basis partnership:</p> | | | | |
| <p>a) Determine if the accrual basis is required to be used (i.e., gross receipts in excess of \$5 million) or does the partnership meet the "Function Exception".</p> | <p>_____</p> | <p>_____</p> | <p>_____</p> | <p>_____</p> |

PARTNERSHIP TAX RETURN PREPARATION AND REVIEW CHECKLIST
1988 - FORM 1065

		<u>DONE</u>	<u>NOT DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
A)	GENERAL INFORMATION (Continued)				
	b) If the partnership has a corporate partner or is a tax shelter, determine whether the cash method of accounting may be used.	_____	_____	_____	_____
A8)	Determine if the partnership is a limited partnership.	_____	_____	_____	_____
A9)	Inquire whether the partnership has made or received any below-market-rate term or demand loans. If so, determine imputed interest consequences.	_____	_____	_____	_____
A10)	Review prior year's return Schedule M, Columns D and E for items which may have an effect upon or require similar treatment in the current year.	_____	_____	_____	_____
	a) Reconcile income per books with return (determine nontaxable income not included).	_____	_____	_____	_____
	b) Reconcile expenses per books with return (determine nondeductible items not included).	_____	_____	_____	_____
A11)	Determine if there has been any change in the partnership's ownership and/or a technical termination during the year.	_____	_____	_____	_____
A12)	Consider the optional adjustment to basis of partnership property under IRC Section 754. Death of a partner is a Section 754 transfer.	_____	_____	_____	_____
A13)	Determine whether property has been contributed by a partner after March 31, 1984, and if so, that <u>all</u> items of income, gain, loss and deductions are shared among the partners to take into account the variation between the basis of the property to the partnership and its value [amended Section 704(c)(2)].	_____	_____	_____	_____
A14)	Determine whether the partnership was required to register as a tax shelter - if so, place the registration number on each K-1.	_____	_____	_____	_____
A15)	If the partnership has selected an allowable fiscal tax year other than the "required year," determine that Form 8716 has been timely filed, and that "required payments" have been made. (Partnership must adopt the same fiscal year as a corporate partner.)	_____	_____	_____	_____

PARTNERSHIP TAX RETURN PREPARATION AND REVIEW CHECKLIST
1988 - FORM 1065

	<u>DONE</u>	<u>NOT DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
A) GENERAL INFORMATION (Continued)				
A16) Determine if the return is for a short-year. If so, review the related requirements.	_____	_____	_____	_____
A17) Information returns:				
a) Consider mag-tape filing requirements for 1099's and W-2's.	_____	_____	_____	_____
b) Determine whether the partnership has filed all the information returns (1099's, 1098's) and whether they have included the personal use portion of employer property and 401(k) deferred compensation information in the employee's W-2.	_____	_____	_____	_____
c) Consider additional items subject to employer FICA, such as: 401(k) deferrals, employer- provided excess group - term life insurance, all cash tips, etc.	_____	_____	_____	_____
A18) Determine if Publicly Traded Partnership.	_____	_____	_____	_____
B) INCOME				
B1) Compare sources of portfolio income with prior year's return.	_____	_____	_____	_____
B2) Determine that only trade or business (e.g., not portfolio or rental) income is shown on Page 1 of Form 1065.	_____	_____	_____	_____
B3) Determine that the specific charge-off method for bad debts is used. Pre-1987 bad debt reserve is generally to be taken into income over four years, beginning in 1987.	_____	_____	_____	_____
B4) Determine that installment sales have been properly reported.	_____	_____	_____	_____
a) Determine that the full amount of depreciation recapture is reported in the year of sale.	_____	_____	_____	_____

PARTNERSHIP TAX RETURN PREPARATION AND REVIEW CHECKLIST
1988 - FORM 1065

		<u>DONE</u>	<u>NOT DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
B)	INCOME (Continued)				
	b) Review for appropriate interest rates on debt instruments received in connection with the sale. Determine whether any interest rate/income adjustments are necessary.	_____	_____	_____	_____
	c) Dealer sales:				
	1) Determine that the installment method is <u>not</u> used to report post December 31, 1987 sales of dealer property. (Exceptions: farm property, certain timeshare rights and residential lots if proper election is made.)	_____	_____	_____	_____
	2) Determine that the interest owed as a result of an election in (1) above is properly reported.	_____	_____	_____	_____
	3) For sales occurring after 2/28/86 and before 1/1/88 compute Section 481 adjustments, and consider application of three-year payment provisions for amounts attributable to the proportionate disallowance rules.	_____	_____	_____	_____
	d) Consider special rules for installment reporting by certain non-dealers of real property used in the trade or business or for the production of rental income where the sales price exceeds \$150,000 (Section 453A).	_____	_____	_____	_____
	1) Compute the interest payment on any deferred tax liability if the face amount of all obligations arising from this type of disposition exceeds \$5,000,000.	_____	_____	_____	_____
	2) Determine that the proper amount is treated as a collection on any pledged installment obligation.	_____	_____	_____	_____
	e) Consider electing out of installment sales.	_____	_____	_____	_____
B5)	Determine if deferred income for book purposes should be included in taxable income.	_____	_____	_____	_____
B6)	Examine fixed assets for any disposals:				
	a) Reconcile to depreciation schedule.	_____	_____	_____	_____

PARTNERSHIP TAX RETURN PREPARATION AND REVIEW CHECKLIST
1988 - FORM 1065

		<u>DONE</u>	<u>NOT DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
B)	INCOME (Continued)				
	b) Determine that related gains and losses are properly reported.	_____	_____	_____	_____
	c) Consider investment tax credit recapture.	_____	_____	_____	_____
	d) If property was sold, exchanged or involuntarily converted during the year, consider the provisions related to:				
	1) Nonrecognition of gain or loss.	_____	_____	_____	_____
	2) Recapture of depreciation and/or investment tax credit.	_____	_____	_____	_____
B7)	Determine that securities transactions are reported based on trade date (not settlement date).	_____	_____	_____	_____
B8)	Consider wash sales.	_____	_____	_____	_____
B9)	Determine if there were any sales or exchanges during the year between the partnership and a partner.	_____	_____	_____	_____
B10)	Compare Forms 1099 received for proper inclusion in sales, interest income, dividends, etc.	_____	_____	_____	_____
B11)	If the partnership has passive income or losses from one or more activities, they may be required to be separately reported on the K-1 schedules (see the Passive Activity Checklist):				
	a) The partnership was involved in or was a limited partner in a trade or business in which it does not materially participate.	_____	_____	_____	_____
	b) The partnership has any rental activity other than hotels, car rentals and similar activities in which substantial services are provided.	_____	_____	_____	_____
	c) Working interests in oil and gas properties (except if held in a limited partnership) are generally excluded from passive activity limitations.	_____	_____	_____	_____

PARTNERSHIP TAX RETURN PREPARATION AND REVIEW CHECKLIST
1988 - FORM 1065

	<u>DONE</u>	<u>NOT DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
B) INCOME (Continued)				
B12) Inquire whether the partnership has any worthless securities or other bad debts to be reflected in the current year's returns.	_____	_____	_____	_____
C) DEDUCTIONS				
C1) Consider the uniform capitalization rules (this applies to self-constructed assets, resalers with average receipts in excess of \$10 million including attribution, and all manufacturers).	_____	_____	_____	_____
a) Determine that all costs are included - those capitalized under the old law full absorption, as well as a portion of the following costs:				
1) Taxes (other than income taxes).	_____	_____	_____	_____
2) Tax depreciation/amortization.	_____	_____	_____	_____
3) Percentage depletion (if used).	_____	_____	_____	_____
4) Administration costs.	_____	_____	_____	_____
5) Support function/department.	_____	_____	_____	_____
6) Officer's compensation.	_____	_____	_____	_____
7) Insurance costs.	_____	_____	_____	_____
8) Retirement plan contributions including past service cost. New for 1988.	_____	_____	_____	_____
9) Rework labor/scrap/spoilage.	_____	_____	_____	_____
10) Purchasing.	_____	_____	_____	_____
11) Bidding expenses on awarded contract.	_____	_____	_____	_____
12) Storage/warehouse.	_____	_____	_____	_____
13) Quality control.	_____	_____	_____	_____
b) Consider advantages and disadvantages of electing "simplified" method for resalers.	_____	_____	_____	_____

PARTNERSHIP TAX RETURN PREPARATION AND REVIEW CHECKLIST
1988 - FORM 1065

		<u>DONE</u>	<u>NOT DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
C)	DEDUCTIONS (Continued)				
	c) Consider interest capitalization rules for debt incurred to produce property.	_____	_____	_____	_____
	d) If the beginning inventory is revalued, ascertain the amount of adjustment required for the beginning inventory due to the change in method of accounting (Section 481). Ascertain Section 481 forward spread period (not to exceed four years).	_____	_____	_____	_____
	e) If Section 263A applies, determine that Form 3115 and the 263A checklist were filed with the tax return in the year of change. If not, these forms must be filed with the 1988 tax return. (See IRS Notice 88-92.)	_____	_____	_____	_____
	f) For farmers and ranchers, consider initial year one time election out of uniform capitalization rules.	_____	_____	_____	_____
C2)	Determine that all guaranteed payments to partners for services or use of capital, determined without regard to income, have been deducted in computing ordinary income, or have been capitalized as required.	_____	_____	_____	_____
C3)	Vacation pay accrual:				
	a) Review the partnership's policy to determine if a deduction is allowable on the accrual basis and that the accrued vacation will be taken/paid within 2-1/2 months.	_____	_____	_____	_____
	b) Consider that the 1987 Act repealed the Section 463 vacation rules and any taxpayer required to change accounting methods must recognize the adjustment over a maximum of four years.	_____	_____	_____	_____
C4)	Inquire whether the partnership can substantiate by adequate records, as required under IRC Section 274, expenses claimed for entertainment, entertainment facilities, gifts (note \$25 limit), travel, conventions.	_____	_____	_____	_____

PARTNERSHIP TAX RETURN PREPARATION AND REVIEW CHECKLIST
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C) DEDUCTIONS (Continued)	<u>DONE</u>	<u>NOT DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
C5) Verify that the proper allocations have been made dividing interest expense between:				
a) Trade or business expenditures.	_____	_____	_____	_____
b) Investment expenditures.	_____	_____	_____	_____
c) Passive activity expenditures.	_____	_____	_____	_____
d) Personal (consumer) expenditures.	_____	_____	_____	_____
e) Tax-exempt investments.	_____	_____	_____	_____
C6) Determine that retirement plan contributions are within allowable limits and are properly reported on Schedule K and Page 1.	_____	_____	_____	_____
C7) Prepare a schedule of other deductions.	_____	_____	_____	_____
C8) For long-term contracts entered into after February 28, 1986:				
a) Determine that partnership's reporting under the completed-contract method recognize 40% (70% after October 13, 1987) of related income on percentage-of-completion method. (Exceptions: contracts completed within two years and annual average company receipts of less than \$10 million).	_____	_____	_____	_____
b) Consider the 1986 Act modification to the percentage-of-completion method:				
1) Completion percentage based on costs, not work performed.	_____	_____	_____	_____
2) The expanded requirement to capitalize costs similar to uniform capitalization rules (see C-1).	_____	_____	_____	_____
3) The requirement to compute prior year estimate inaccuracies with actual costs at completion of the contract and pay interest on related unpaid prior year taxes ("Look-Back Rule").	_____	_____	_____	_____
C9) Determine that the partnership has not deducted interest or expenses accrued to a partner unless the partner has included such amounts in income.	_____	_____	_____	_____
C10) Determine that expenses allocable to portfolio income have not been deducted on Page 1.	_____	_____	_____	_____

PARTNERSHIP TAX RETURN PREPARATION AND REVIEW CHECKLIST
1988 - FORM 1065

	<u>DONE</u>	<u>NOT DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
C) DEDUCTIONS (Continued)				
C11) Limit meals and entertainment to 80%. (Inquire if there are any employee events, qualified banquets, etc. that are deductible in full.)	_____	_____	_____	_____
C12) If taxpayer maintains a pension and/or profit-sharing plan and has not contributed the maximum contribution of each taxable year beginning prior to 1987, calculate the unfunded contribution carryover amount.	_____	_____	_____	_____
D) DEPRECIATION				
D1) Consider various depreciation methods and lives (for 1987-1988 acquisitions consult Rev. Proc. 87-57 tables):				
a) Consider Section 179 election to expense certain depreciable assets up to \$10,000. Reduce \$10,000 ceiling by the cost of qualifying property purchased during the year in excess of \$200,000. Limit expense to taxable income from active trade or business.	_____	_____	_____	_____
b) For acquisitions of real estate, other than low-income housing, after December 31, 1980 and before January 1, 1987, determine that depreciation deductions are computed using the appropriate ACRS life and method.	_____	_____	_____	_____
c) For acquisitions of real estate after December 31, 1986, determine if property is residential or nonresidential property. Determine that modified ACRS (MACRS) depreciation deductions are computed using straight-line, mid-month convention, 27.5-year life for residential rental and 31.5-year life for nonresidential real property.	_____	_____	_____	_____
d) For acquisitions after December 31, 1986, determine the ADR class life for each asset placed in service and the appropriate depreciation method for both regular tax and AMT.	_____	_____	_____	_____
e) Determine the applicable convention (e.g. half-year, mid-quarter) -- if more than 40% of MACRS property (except real estate) is placed in service during the last three months of the year, use mid-quarter convention.	_____	_____	_____	_____

PARTNERSHIP TAX RETURN PREPARATION AND REVIEW CHECKLIST
1988 - FORM 1065

		<u>DONE</u>	<u>NOT DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
D)	DEPRECIATION (Continued)				
	f) For leasehold improvements made after December 31, 1986, determine that the cost is being recovered over the applicable recovery period, REGARDLESS of the lease period.	_____	_____	_____	_____
	g) Consider electing the alternative depreciation system for property placed in service during the year.	_____	_____	_____	_____
D2)	Make adjustments for depreciable assets which are demolished, obsolete, abandoned and/or out of service. Consider investment credit recapture.	_____	_____	_____	_____
D3)	For assets placed in service after June 18, 1984 that are used partly for business and partly for personal use (i.e. autos, computers, airplanes, boats):				
	a) Consider maximum depreciation under the luxury auto rules.	_____	_____	_____	_____
	b) For autos, determine limitation if business usage is 50% or less.	_____	_____	_____	_____
	c) Determine limitation for all other mixed-use property, if business usage is 50% or less.	_____	_____	_____	_____
	d) For leased vehicles and property, determine business and personal usages and calculate appropriate income to be reported by referring to the IRS tables.	_____	_____	_____	_____
	e) Inquire if the partnership has kept the required records indicating the business and personal use of property.	_____	_____	_____	_____
	f) For listed property acquired after April 1984, compute recapture if business usage is 50% or less.	_____	_____	_____	_____
D4)	Determine if property/equipment leases are operating leases or capital leases.	_____	_____	_____	_____
D5)	Form 4562:				
	a) Reconcile depreciation expense to supporting schedules.	_____	_____	_____	_____

PARTNERSHIP TAX RETURN PREPARATION AND REVIEW CHECKLIST
1988 - FORM 1065

	<u>DONE</u>	<u>NOT DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
D) DEPRECIATION (Continued)				
b) Complete all questions regarding personal use of listed property.	_____	_____	_____	_____
c) Determine that all amortizable items are separately stated and the proper Code section cited.	_____	_____	_____	_____
E) PARTNER DATA - SCHEDULE K-1				
E1) Passive activity information:				
a) Indicate which partners "materially participate" in each activity of the partnership.	_____	_____	_____	_____
b) Indicate which partners "actively participate" in rental real estate activities of the partnership.	_____	_____	_____	_____
E2) If the partnership has acquired real estate after December 31, 1986, or a partner has acquired an interest in the partnership after December 31, 1986, apply the "at-risk" rules.	_____	_____	_____	_____
E3) For passive activity determination, if the partnership started or acquired a new activity after October 22, 1986, or a partner's ownership interest increased after October 22, 1986, supply the partner with the required information with respect to such new activity or ownership increase. Check appropriate block and attach statement on K-1.	_____	_____	_____	_____
E4) Verify that the beginning and ending total partners' capital figures on Schedule L agree with the reconciliation of partners' capital accounts - Schedule M.	_____	_____	_____	_____
E5) Complete each partner's reconciliation of capital. Run tapes on each column to verify that the total agrees to the corresponding column on Schedule M - Form 1065.	_____	_____	_____	_____
E6) Properly reflect each partners' share of eligible tax credits.	_____	_____	_____	_____
E7) Determine the allocation of the partnership's recourse and nonrecourse liabilities and enter separately on each partner's Schedule K-1.	_____	_____	_____	_____

PARTNERSHIP TAX RETURN PREPARATION AND REVIEW CHECKLIST
1988 - FORM 1065

		<u>DONE</u>	<u>NOT DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
E)	PARTNER DATA - SCHEDULE K-1 (Continued)				
E8)	Distribute each item on Schedule K among the K-1's in accordance with provisions of the partnership agreement.	_____	_____	_____	_____
E9)	Determine that proper reporting has been provided for all items requested on Schedule K-1 that affect partner's tax liability. Particular attention should be given to items affected by recent legislation such as:				
a)	Ordinary trade or business income.	_____	_____	_____	_____
b)	Rental activities.	_____	_____	_____	_____
c)	Portfolio income and related deductions.	_____	_____	_____	_____
d)	Passive activity data.	_____	_____	_____	_____
e)	Partner's medical insurance.	_____	_____	_____	_____
E10)	Segregate all tax preference and alternative minimum tax adjustment items and list on the appropriate line of Schedule K.	_____	_____	_____	_____
E11)	Prepare schedules that reflect each partner's share of property subject to investment credit recapture.	_____	_____	_____	_____
E12)	If the partnership has any foreign partners, determine that proper withholding was made on distributions.	_____	_____	_____	_____
F)	OTHER REQUIREMENTS				
F1)	Compute net earnings from self-employment and enter on Schedule K.	_____	_____	_____	_____
F2)	If a tiered partnership arrangement exists, review Section 706(c)(2)(b) and 706(d) regarding allocation rules.	_____	_____	_____	_____
F3)	If this is a first-year return, consider the following elections:				
a)	Election to amortize organization expense.	_____	_____	_____	_____

PARTNERSHIP TAX RETURN PREPARATION AND REVIEW CHECKLIST
1988 - FORM 1065

		<u>DONE</u>	<u>NOT DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
F)	OTHER REQUIREMENTS (Continued)				
	b) Cash vs. accrual method.	_____	_____	_____	_____
	c) Election to amortize business start-up costs.	_____	_____	_____	_____
	d) Election to expense intangible drilling costs.	_____	_____	_____	_____
F4)	If the partnership has made an "applicable asset acquisition" (transfer of assets that constitute a trade or business), determine that applicable reporting requirements regarding allocation of purchase price have been met. (See Form 8594).	_____	_____	_____	_____
F5)	Consider that Section 6661 provides a <u>25% penalty for substantial understatement of tax liability</u> . If this penalty could result from any income, deduction, loss, or credit item, then:				
	a) Consider if substantial authority exists for the item in question. If not, consider disclosure (Form 8275).	_____	_____	_____	_____
	b) Determine if the partnership is a tax shelter for purposes of Section 6661.	_____	_____	_____	_____
	c) Consider advising the partnership, in writing, of the 25% penalty.	_____	_____	_____	_____
F6)	If the partnership interest was sold during the year, prepare the appropriate Form 8308.	_____	_____	_____	_____
F7)	Prepare state tax returns. Review each state's modification requirements. Consider state withholding requirements on income allocated to nonresident partners.	_____	_____	_____	_____
F8)	Attach extension requests to tax returns.	_____	_____	_____	_____
F9)	Prepare filing instructions and transmittal letter to the partnership.	_____	_____	_____	_____
F10)	Advise the partnership to have its retirement plans reviewed to determine if they are in compliance in light of changing circumstances and the recent tax law changes.	_____	_____	_____	_____

PARTNERSHIP TAX RETURN PREPARATION AND REVIEW CHECKLIST
1988 - FORM 1065

	<u>DONE</u>	<u>NOT DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
F) OTHER REQUIREMENTS (Continued)				
F11) Note any tax planning suggestions below.				

COMMENTS OR EXPLANATIONS:

CORPORATE TAX RETURN PREPARATION AND REVIEW CHECKLIST
1988 - FORM 1120

Client Name: _____ Client Number: _____

Interviewed by: _____ Date Completed/Hours: _____

Prepared by: _____ Date Completed/Hours: _____

Reviewed by: _____ Date Completed/Hours: _____

Return Due Date: _____ Extension Due Date: _____

	<u>DONE</u>	<u>NOT DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
A) GENERAL INFORMATION				
A1) Review the corporation's name, address, fiscal year, incorporation date, business code and identification number.	_____	_____	_____	_____
A2) Review prior year returns, memos, work-papers and correspondence files.	_____	_____	_____	_____
A3) If the corporation has been examined by the Internal Revenue Service:				
a) Obtain copies of the revenue agent's reports.	_____	_____	_____	_____
b) Verify that the agent's adjustments have been entered on the corporation's records.	_____	_____	_____	_____
c) If any of the agent's adjustments affect the income tax returns of years other than those audited, consider amendments.	_____	_____	_____	_____
d) Determine whether amended state tax returns should be filed to reflect adjustments.	_____	_____	_____	_____
A4) Check for carryover items such as:				
a) Net operating loss:				
1) Consider limitations due to change in ownership rules (Section 382).	_____	_____	_____	_____
2) Consider SRLY limitation.	_____	_____	_____	_____
b) Capital loss.	_____	_____	_____	_____
c) Investment credit (compute % reduction).	_____	_____	_____	_____
d) Charitable contributions.	_____	_____	_____	_____
e) Installment sales.	_____	_____	_____	_____
f) Jobs credit.	_____	_____	_____	_____
g) Foreign tax credit.	_____	_____	_____	_____

CORPORATE TAX RETURN PREPARATION AND REVIEW CHECKLIST
1988 - FORM 1120

		<u>DONE</u>	<u>NOT DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
A) GENERAL INFORMATION (Continued)					
h)	Retirement plan contribution.	_____	_____	_____	_____
i)	Research tax credit.	_____	_____	_____	_____
j)	General business credits.	_____	_____	_____	_____
k)	Energy credits.	_____	_____	_____	_____
l)	ESOP tax credit (PAYSOP).	_____	_____	_____	_____
m)	Passive loss/credits.	_____	_____	_____	_____
n)	Pre-1987 bad debt reserve income.	_____	_____	_____	_____
o)	Income from inventory adjustment due to uniform capitalization rules.	_____	_____	_____	_____
p)	Four year ratable inclusion of short period income from partnerships that changed to a required tax year in 1987 (Be aware of Section 444).	_____	_____	_____	_____
q)	Four year ratable inclusion of short period income on the change from the cash to accrual method.	_____	_____	_____	_____
r)	Consider other change of accounting methods requiring Section 481 adjustments.	_____	_____	_____	_____
s)	Update schedule of carryover items.	_____	_____	_____	_____
A5)	Inquire whether the taxpayer has made or received any below-market-rate loans. If so, determine imputed interest consequences.	_____	_____	_____	_____
A6)	Determine officers' compensation and complete Schedule E.	_____	_____	_____	_____
A7)	Information returns:				
a)	Consider mag-tape filing requirements for 1099's and W-2's.	_____	_____	_____	_____
b)	Determine whether the corporation has filed all the information returns (1099's , 1098's) and whether they have included the personal use portion of employer property in the employee's W-2, and 401(k) deferred compensation information.	_____	_____	_____	_____
c)	Consider additional items subject to employer FICA such as 401(k) deferrals, employer provided excess group term life insurance.	_____	_____	_____	_____

CORPORATE TAX RETURN PREPARATION AND REVIEW CHECKLIST
1988 - FORM 1120

	<u>DONE</u>	<u>NOT DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
A) GENERAL INFORMATION (Continued)				
A8) Determine if the corporation is a Personal Service Corporation and is required to file on a calendar year end. If yes, check box C page 1 of Form 1120. (Be aware of Section 444 election).	_____	_____	_____	_____
A9) If the corporation is on a cash basis, determine if the accrual basis is required (i.e., gross receipts in excess of \$5 million) or if the corporation meets either the "Function Exception" or special rules regarding family farm corporations.	_____	_____	_____	_____
B) INCOME				
B1) Determine that installment sales are reported properly.	_____	_____	_____	_____
a) Determine that the full amount of depreciation recapture is reported in the year of sale.	_____	_____	_____	_____
b) Review for appropriate interest rates on debt instruments received in connection with the sale. Determine whether any interest rate/income adjustments are necessary.	_____	_____	_____	_____
c) Dealer sales:				
1) Determine that the installment method is NOT used to report post December 31, 1987 sales of dealer property. (Exceptions farm property, certain timeshare rights, and residential lots if proper election is made.	_____	_____	_____	_____
2) Determine that the interest owed as a result of an election in (1) above is properly reported.	_____	_____	_____	_____
3) For sales occurring after 2-28-86 and before 1-1-88, compute section 481 adjustments, and consider application of three year payment provisions for amounts attributable to the proportionate disallowance rules.	_____	_____	_____	_____
d) Consider special rules for installment reporting by certain non-dealers of real property used in the trade or business or for the production of rental income where the sales price exceeds \$150,000 (Section 453A).	_____	_____	_____	_____

CORPORATE TAX RETURN PREPARATION AND REVIEW CHECKLIST
1988 - FORM 1120

		<u>DONE</u>	<u>NOT DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
B)	INCOME (Continued)				
	1) Compute the payment of interest on any deferred tax liability if the face amount of all obligations arising from this type disposition exceeds \$5,000,000.	_____	_____	_____	_____
	2) Determine that the proper amount is treated as a collection on any pledged installment obligation.	_____	_____	_____	_____
	e) Consider electing out of installment reporting.	_____	_____	_____	_____
B2)	Determine if deferred income for book purposes should be included in taxable income.	_____	_____	_____	_____
B3)	Examine fixed assets for any disposals:				
	a) Reconcile to depreciation schedule.	_____	_____	_____	_____
	b) Determine that related gains and losses are properly reported.	_____	_____	_____	_____
	c) Consider investment tax credit recapture.	_____	_____	_____	_____
	d) If property was sold, exchanged or involuntarily converted during the year, consider the provisions relating to:				
	1) Non-recognition of gain or loss.	_____	_____	_____	_____
	2) Recapture of depreciation and/or investment tax credit.	_____	_____	_____	_____
B4)	Determine if there were any wash sales of securities during the tax year.	_____	_____	_____	_____
B5)	Determine if any securities held by the corporation became worthless during the year. If the securities were in an affiliated corporation, the deduction may be ordinary under Section 165(g)(2).	_____	_____	_____	_____
B6)	Exclude interest on state or local obligations from federal taxable income; however, enter amounts on form 1120, Page 3 - Question Q.	_____	_____	_____	_____
B7)	Exclude interest on exempt state, local and federal obligations from state and local taxable income if applicable.	_____	_____	_____	_____
B8)	Determine taxability of dividends and complete Schedule C. Consider 20% ownership rule.	_____	_____	_____	_____

CORPORATE TAX RETURN PREPARATION AND REVIEW CHECKLIST
1988 - FORM 1120

	<u>DONE</u>	<u>NOT DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
B) INCOME (Continued)				
B9) Compare Forms 1099 received for proper inclusion in sales, interest income, dividends, etc.	_____	_____	_____	_____
B10) If there are any Section 1231 gains, determine the amount, if any, subject to ordinary income treatment as "recapture" of prior years' Section 1231 losses.	_____	_____	_____	_____
B11) If either of the following apply, the corporation's losses from an activity may be limited (see Passive Activity Checklist):				
a) During the last half of the year, there are five or fewer individuals who own directly or indirectly more than 50% of the stock and shareholders owning (in the aggregate) more than 50% are NOT materially participating in the activity.	_____	_____	_____	_____
b) The corporation is a personal service corporation - even if shareholders are materially participating in the activity.	_____	_____	_____	_____
B12) Determine that a closely held corporation, (other than a PSC) subject to the passive activity rules claims passive losses only as an offset to passive income and net active income. Determine if the Section 465 at-risk rules apply.	_____	_____	_____	_____
C) DEDUCTIONS				
C1) Consider the uniform capitalization rules (this applies to self-constructed assets, resalers of personal property with average receipts in excess of \$10 million including attribution, and all manufacturers).	_____	_____	_____	_____
a) Determine that all costs are included - those capitalized under the old law full absorption, as well as a portion of the following costs required under the 1986 and 1987 Acts:				
1) Taxes (other than income taxes).	_____	_____	_____	_____
2) Tax depreciation/amortization.	_____	_____	_____	_____
3) Percentage depletion.	_____	_____	_____	_____

CORPORATE TAX RETURN PREPARATION AND REVIEW CHECKLIST
1988 - FORM 1120

	<u>DONE</u>	<u>NOT DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
C) DEDUCTIONS (Continued)				
4) Administration costs.	_____	_____	_____	_____
5) Support function/department.	_____	_____	_____	_____
6) Officer's compensation.	_____	_____	_____	_____
7) Insurance costs.	_____	_____	_____	_____
8) Retirement plan contributions including past service cost. New for 1988.	_____	_____	_____	_____
9) Rework labor/scrap/spoilage.	_____	_____	_____	_____
10) Purchasing.	_____	_____	_____	_____
11) Bidding expenses on awarded contracts.	_____	_____	_____	_____
12) Storage warehouse.	_____	_____	_____	_____
13) Quality control.	_____	_____	_____	_____
b) Consider advantages and disadvantages of electing the "simplified" method for resalers.	_____	_____	_____	_____
c) Consider interest capitalization rules for debt incurred to produce property.	_____	_____	_____	_____
d) If the beginning inventory is revalued, ascertain the amount of adjustment required for the beginning inventory due to the change in method of accounting (Section 481). Ascertain Section 481 forward spread period (not to exceed four years).	_____	_____	_____	_____
e) If Section 263A applies, determine that Form 3115 and the 263A checklist were filed with the tax return in the year of change. If not, these forms must be filed with the 1988 tax return (See IRS notice 88-92).	_____	_____	_____	_____
f) For farmers and ranchers, consider initial year one time election out of uniform capitalization rules.	_____	_____	_____	_____
C2) For long-term contracts entered into after February 28, 1986:				

CORPORATE TAX RETURN PREPARATION AND REVIEW CHECKLIST
1988 - FORM 1120

		<u>DONE</u>	<u>NOT DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
C)	DEDUCTIONS (Continued)				
a)	Determine that corporations reporting under the completed-contract method recognize 40% (70% for post Oct. 13, 1987 contracts) of related income on the percentage-of-completion method. (Exceptions - construction contracts completed within two years and annual average gross receipts for the past three years are less than 10 million dollars.)	_____	_____	_____	_____
b)	Consider the 1986 Act modification to the percentage-of-completion method:				
1)	Completion percentage based on costs, not work performed.	_____	_____	_____	_____
2)	The expanded requirement to capitalize costs similar to uniform capitalization rules.	_____	_____	_____	_____
3)	The requirement to compute prior year estimate inaccuracies with actual costs at completion of the contract and pay interest on related unpaid prior year taxes ("Look-Back Rule").	_____	_____	_____	_____
C3)	For charitable contributions:				
a)	Determine that all contributions are to qualified charitable organizations.	_____	_____	_____	_____
b)	Consider the contribution limitation and record any carryover amounts.	_____	_____	_____	_____
c)	Consider the limitation related to contributions of appreciated ordinary income property.	_____	_____	_____	_____
d)	Consider the deduction for more than cost of appreciated capital gains property.	_____	_____	_____	_____
e)	Ascertain that Minutes document authorization before year end for accrued charitable contributions, and contributions are paid within 2 1/2 months after year end. A certified copy of the minutes should be attached to the return. (See Section 1.170-3(b))	_____	_____	_____	_____

CORPORATE TAX RETURN PREPARATION AND REVIEW CHECKLIST
1988 - FORM 1120

	<u>DONE</u>	<u>NOT DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
C) DEDUCTIONS (Continued)				
C4) Vacation pay accrual:				
a) Review the corporation's policy to determine if a deduction is allowable on the accrual basis and that the accrued vacation will be taken/paid within two and one-half months.	_____	_____	_____	_____
b) Consider that the 1987 Act repealed the section 463 vacation pay rules and any taxpayer required to change accounting methods must recognize the adjustment over a maximum of 4 years.	_____	_____	_____	_____
C5) Inquire whether the corporation can substantiate by adequate records, as required under IRC Section 274, expenses claimed for entertainment, entertainment facilities, gifts (Note-\$25 limit), travel and conventions.	_____	_____	_____	_____
C6) Limit meals and entertainment to 80%. (Inquire if there are any employee events, qualified banquets, etc. that are deductible in full.)	_____	_____	_____	_____
C7) If corporation is in a loss position and in danger of losing any carryforward items, consider election to amortize any research and experimental expenditures over 60 months rather than expensing alternative depreciation methods and lives.	_____	_____	_____	_____
C8) If a net operating loss deduction is claimed, prepare a supporting schedule to be attached to the return.	_____	_____	_____	_____
C9) Officers and shareholders:				
a) Identify expenses including interest, if applicable, for officers' life insurance which are non-deductible.	_____	_____	_____	_____
b) Disclose percentage of ownership, social security numbers and addresses if officer/ shareholder owns directly or indirectly more than 50%.	_____	_____	_____	_____
c) Determine limitation on any losses during the year between related corporations/shareholders under Section 267(a)(1).	_____	_____	_____	_____

CORPORATE TAX RETURN PREPARATION AND REVIEW CHECKLIST
1988 - FORM 1120

	<u>DONE</u>	<u>NOT DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
C) DEDUCTIONS (Continued)				
d) If there were any accruals of interest, compensation or other expenses payable to an individual who owns directly or indirectly more than 50% of the corporation's stock, determine that for tax purposes the deduction is deferred until the year in which it is actually paid.	_____	_____	_____	_____
e) If the corporation has a fiscal year end and section 280H (regarding allowable applicable amounts) applies, determine the amount including carryover to be deducted in the current year.	_____	_____	_____	_____
f) Determine that there is a properly executed note with sufficient interest (AFR) charged on all loans.	_____	_____	_____	_____
g) Determine if the corporation distributed appreciated property to its officers or shareholders. If so, the corporation will have to recognize gain due to the repeal of the "General Utilities Doctrine. "	_____	_____	_____	_____
C10) Reconcile income per books to taxable income:				
a) Determine that non-deductible items are properly reflected on the return.	_____	_____	_____	_____
b) Determine that deductions are taken for currently deductible deferred charges and prepaid expenses.	_____	_____	_____	_____
c) Consider exception from economic performance for recurring items (See Section 461(h)(3)).	_____	_____	_____	_____
D) DEPRECIATION				
D1) Consider various depreciation methods and lives (for 1987-88 acquisitions consult Rev. Proc. 87-57 tables):				
a) Consider Section 179 election to expense certain depreciable assets up to \$10,000. Reduce \$10,000 ceiling by the cost of qualifying property purchased during the year in excess of \$200,000. Limit expenses to taxable income from active trade or business.	_____	_____	_____	_____

CORPORATE TAX RETURN PREPARATION AND REVIEW CHECKLIST
1988 - FORM 1120

		<u>DONE</u>	<u>NOT DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
D)	DEPRECIATION (Continued)				
b)	For acquisitions of real estate, other than low-income housing, after December 31, 1980 and before January 1, 1987 determine that the depreciation deductions are computed using the appropriate ACRS life and method.	_____	_____	_____	_____
c)	For acquisitions of real estate after December 31, 1986, determine if property is residential or non-residential property. Determine that modified ACRS (MACRS) depreciation deductions are computed using straight-line, mid-month convention, 27.5-year life for residential rental and 31.5-year life for non-residential real property.	_____	_____	_____	_____
d)	For acquisitions after December 31, 1986, determine the ADR class life for each asset placed in service and the appropriate depreciation method.	_____	_____	_____	_____
e)	Determine the applicable convention (e.g. half-year, mid-quarter). If more than 40% of MACRS property (except real estate) is placed in service during the last three months of the year use mid-quarter convention.	_____	_____	_____	_____
f)	For leasehold improvements made after December 31, 1986, determine that the cost is being recovered over the applicable recovery period REGARDLESS of the lease period.	_____	_____	_____	_____
g)	Consider electing the alternative depreciation system for property placed in service during the year.	_____	_____	_____	_____
D2)	Make adjustments for depreciable assets which are demolished, obsolete, abandoned and/or out of service. Consider investment credit recapture.	_____	_____	_____	_____
D3)	For assets placed in service after June 18, 1984, that are used partly for business and partly for personal use (i.e., autos, computers, airplanes, boats):				
a)	Consider maximum depreciation under luxury auto rules.	_____	_____	_____	_____
b)	For autos, determine limitation if business usage is 50% or less.	_____	_____	_____	_____

CORPORATE TAX RETURN PREPARATION AND REVIEW CHECKLIST
1988 - FORM 1120

		<u>DONE</u>	<u>NOT DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
D)	DEPRECIATION (Continued)				
	c) Determine limitation, for all other mixed-use property, if business usage is 50% or less.	_____	_____	_____	_____
	d) For leased vehicles and property, determine business and personal usages and calculate appropriate income to be reported by referring to the IRS tables.	_____	_____	_____	_____
	e) Inquire if the corporation has kept the required records indicating the business and personal use of property.	_____	_____	_____	_____
	f) For listed property acquired after April 1984, determine recapture if business use is 50% or less.	_____	_____	_____	_____
D4)	Determine if property/equipment leases are operating leases or capital leases.	_____	_____	_____	_____
D5)	Form 4562:				
	a) Reconcile depreciation expense to supporting schedules.	_____	_____	_____	_____
	b) Complete all questions regarding personal use of listed property.	_____	_____	_____	_____
	c) Determine that all amortizable items are separately stated and the proper Code Section cited.	_____	_____	_____	_____

E) TAX COMPUTATIONS AND CREDITS

- E1) Alternative minimum tax must be computed by making adjustments such as:
- a) Depreciation on property placed in service after December 31, 1986 (or July 31, 1986 if election was made) must be recomputed using the proper alternative system:

<u>Type</u>	<u>Method</u>	<u>Period</u>
Realty	Straight-line	40 years
Personal property with no class life	150 DB	12 years
Other personal property	150 DB	Class Life

CORPORATE TAX RETURN PREPARATION AND REVIEW CHECKLIST
1988 - FORM 1120

		<u>DONE</u>	<u>NOT DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
E) TAX COMPUTATIONS AND CREDITS (Continued)					
b)	Mining, exploration, research & development costs must be capitalized and amortized over a ten-year period.	_____	_____	_____	_____
c)	Income from long-term contracts computed using the percentage-of-completion method of accounting.	_____	_____	_____	_____
d)	Income from post-February 28, 1986 disposition of real or personal property held for sale in the ordinary course of business shall be determined without regard to the installment method, except in cases where an election is made to pay interest on the tax deferred by the installment method.	_____	_____	_____	_____
e)	An AMT net operating loss (NOL) deduction is allowed in place of the regular NOL deduction. Post 1986 AMT NOL deduction is available only to extent of 90% of pre-NOL AMTI.	_____	_____	_____	_____
f)	Recompute sales and exchanges using AMT adjusted basis.	_____	_____	_____	_____
g)	The following preference items must be added:				
1)	Excess depletion.	_____	_____	_____	_____
2)	Excess intangible drilling costs.	_____	_____	_____	_____
3)	Accelerated depreciation on leased personal property placed in service prior to 1987.	_____	_____	_____	_____
h)	Consider special rules denying certain losses for AMT purposes.	_____	_____	_____	_____
1)	Net passive activity losses as adjusted for tax preferences.	_____	_____	_____	_____
2)	Certain farm losses.	_____	_____	_____	_____
3)	Insolvent taxpayers.	_____	_____	_____	_____

CORPORATE TAX RETURN PREPARATION AND REVIEW CHECKLIST
1988 - FORM 1120

		<u>DONE</u>	<u>NOT DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
E)	TAX COMPUTATIONS AND CREDITS (Continued)				
	i) One-half of the difference between adjusted net book income and AMTI before NOL must be added to AMTI as Business Untaxed Reported Profits (BURP). BURP is effective for tax years beginning in 1987, 1988 and 1989.	_____	_____	_____	_____
	j) Consider foreign tax credit and investment tax credit in AMT computation.	_____	_____	_____	_____
	k) Consider AMT credit carryover.	_____	_____	_____	_____
E2)	If AMTI before any NOL deduction is greater than \$2,000,000, consider the 0.12 percent environmental tax. See Section 1561 for a limitation on the 2,000,000 exemption for controlled corporations.	_____	_____	_____	_____
E3)	Consider Section 1341 claim of right where an item of income was included in gross income in a previous year and a deduction for such item is allowable this year.	_____	_____	_____	_____
E4)	Determine if the corporation is eligible for tax credits such as:				
	a) Foreign tax credit.	_____	_____	_____	_____
	b) Investment tax credit (rehabilitation and transition).	_____	_____	_____	_____
	c) Jobs credit.	_____	_____	_____	_____
	d) Credit for increasing research activities.	_____	_____	_____	_____
	e) Solar energy credit.	_____	_____	_____	_____
	f) Credit for producing fuels from nonconventional source.	_____	_____	_____	_____
	g) Gasoline and special fuels credit.	_____	_____	_____	_____
E5)	Determine if the corporation is a personal holding company. If so, prepare Schedule PH, Form 1120.	_____	_____	_____	_____
E6)	If corporation is a personal service corporation, calculate tax without benefit of graduated rates.	_____	_____	_____	_____
E7)	Determine if accumulated earnings tax exposure is present.	_____	_____	_____	_____

CORPORATE TAX RETURN PREPARATION AND REVIEW CHECKLIST
1988 - FORM 1120

	<u>DONE</u>	<u>NOT DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
E) TAX COMPUTATIONS AND CREDITS (Continued)				
E8) If estimated tax deposits are less than 90% of the tax liability, which includes alternative minimum, prepare Form 2220, if applicable.	_____	_____	_____	_____
E9) Consider estimated tax payments for the following year and large corporation estimated payment, if applicable.	_____	_____	_____	_____
E10) If this is a consolidated tax return:				
a) Attach Form 851.	_____	_____	_____	_____
b) Attach Form 1122 (only for member's first year).	_____	_____	_____	_____
c) Attach surtax master apportionment schedule.	_____	_____	_____	_____
E11) If corporation is a member of a controlled group, consider special allocation rules under Section 1561 and 1563.	_____	_____	_____	_____
F) OTHER REQUIREMENTS				
F1) If the corporation has made an "applicable asset acquisition" (transfer of assets that constitute a trade or business), determine that applicable reporting requirements regarding allocation of purchase price have been met (See Form 8594).	_____	_____	_____	_____
F2) If there is a net operating loss in the current year, consider carryover in lieu of carryback and election required.	_____	_____	_____	_____
F3) If there is a net operating loss in the current year, or a carryforward to the current year disclosure is required regarding any change of ownership (Section 382).	_____	_____	_____	_____
F4) Prepare Form 1139 for carrybacks.	_____	_____	_____	_____
F5) If this is a first year return, consider the following elections:				
a) Election to amortize organization expense.	_____	_____	_____	_____
b) Election to amortize business start-up costs.	_____	_____	_____	_____

CORPORATE TAX RETURN PREPARATION AND REVIEW CHECKLIST
1988 - FORM 1120

		<u>DONE</u>	<u>NOT DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
F)	OTHER REQUIREMENTS (Continued)				
	c) Election to expense intangible drilling costs.	_____	_____	_____	_____
	d) Section 351, statement of transferred assets, where applicable.	_____	_____	_____	_____
F6)	Consider applicable reporting requirements for corporate liquidation and reorganization.	_____	_____	_____	_____
F7)	Cross reference the following items:				
	a) Schedule L beginning balances to prior year's ending balances.	_____	_____	_____	_____
	b) Schedule M-2 beginning retained earnings to prior year's ending balance.	_____	_____	_____	_____
	c) Detail listings Schedule L beginning balances to prior year's detail listings ending balances.	_____	_____	_____	_____
	d) Carryforward schedules to prior year returns.	_____	_____	_____	_____
	e) For estimated payments, compare Page 1 - Line 32(a) of the current year to Page 1 - Line 36 of the prior year.	_____	_____	_____	_____
F8)	Cross reference line items to supporting schedules within the return.	_____	_____	_____	_____
F9)	Consider that Section 6661 provides a 25% penalty for substantial understatement of tax liability. If this penalty could result from any income, deduction, loss, or credit item, then:				
	a) Consider if substantial authority exists for the item in question. If not, consider disclosure (Form 8275).	_____	_____	_____	_____
	b) Consider advising the corporation, in writing, of the 25% penalty.	_____	_____	_____	_____
F10)	Prepare state tax returns. Compile apportionment data.	_____	_____	_____	_____

CORPORATE TAX RETURN PREPARATION AND REVIEW CHECKLIST
1988 - FORM 1120

		<u>DONE</u>	<u>NOT DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
F)	OTHER REQUIREMENTS (Continued)				
F11)	Attach extension requests to tax returns.	_____	_____	_____	_____
F12)	Prepare filing instructions and transmittal letter to the corporation.	_____	_____	_____	_____
F13)	Inquire if the corporation has updated the corporate Minutes Book.	_____	_____	_____	_____
F14)	Advise the corporation to have their retirement plans reviewed to determine if they are in compliance in light of changing corporate circumstances and the recent tax law changes.	_____	_____	_____	_____
F15)	Advise the corporation that a retirement plan contribution must be made before the due date of the return including extension.	_____	_____	_____	_____
F16)	Determine that the required forms have been filed for retirement plans covered by this period.	_____	_____	_____	_____
F17)	Note any tax planning suggestions below.	_____	_____	_____	_____

COMMENTS OR EXPLANATIONS

S CORPORATION TAX RETURN PREPARATION AND REVIEW CHECKLIST
1988- FORM 1120S

Client Name: _____ Client Number: _____

Interviewed by: _____ Date Completed/Hours: _____

Prepared by: _____ Date Completed/Hours: _____

Reviewed by: _____ Date Completed/Hours: _____

Return Due Date: _____ Extension Due Date: _____

		NOT DONE	DONE	N/A	COMMENTS OR EXPLANATION
A) GENERAL INFORMATION					
A1)	Review for correctness and changes to the S corporation's and shareholders' name, address, fiscal year, incorporation date, business code and identification number.	_____	_____	_____	_____
A2)	List the name, address and identifying number of the "Tax Matters" person on Page 2 of the return.	_____	_____	_____	_____
A3)	Review prior year returns, memos, work-papers and correspondence files.	_____	_____	_____	_____
A4)	If the S corporation has been examined by the Internal Revenue Service:				
a)	Obtain copies of the revenue agent's reports.	_____	_____	_____	_____
b)	Determine that the agent's adjustments have been entered on the S corporation's records.	_____	_____	_____	_____
c)	If any of the agent's adjustments affect the income tax returns of years other than those audited, consider amendments.	_____	_____	_____	_____
d)	Determine whether amended state tax returns should be filed to reflect adjustments.	_____	_____	_____	_____
A5)	Inquire whether the S corporation has made or received any below-market-rate term or demand loans. If so, determine imputed interest consequences.	_____	_____	_____	_____
A6)	Determine officers' compensation.	_____	_____	_____	_____
A7)	Information returns:				
a)	Consider mag-tape filing requirements for 1099's and W-2's.	_____	_____	_____	_____

S CORPORATION TAX RETURN PREPARATION AND REVIEW CHECKLIST
1988- FORM 1120S

	<u>DONE</u>	<u>NOT DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
A) GENERAL INFORMATION (Continued)				
b) Determine whether the S corporation has filed all the information returns (1099's, 1098's) and whether they have included the personal use portion of employer property and 401(k) deferred compensation information in the employee's W-2.	_____	_____	_____	_____
c) Consider additional items subject to employer FICA such as 401(k) deferrals, employer-provided excess group term life insurance, all cash tips, etc.	_____	_____	_____	_____
A8) Events triggering termination of S status:				
a) Determine that no disqualifying event has occurred related to excess number of shareholders, prohibited type of shareholder, activation of a subsidiary or issuance of a second class of stock.	_____	_____	_____	_____
b) Determine that termination is not triggered by excess passive income for three consecutive years, i.e., the S corporation has passive investment income greater than 25% of gross receipts <u>and</u> earnings and profits from any C corporation years.	_____	_____	_____	_____
A9) Election/revocation/termination of S status:				
a) If S status was <u>elected</u> during the current year:				
1) Confirm that IRS (and state if applicable) approval of the election (Federal Form 2553) has been received and is in effect for the current year.	_____	_____	_____	_____
2) Confirm that IRS approval of Form 1128 electing a year-end other than December 31 has been received. Consider Rev. Proc. 87-32 rules for required tax year, grandfathered fiscal year, safe-harbor natural business fiscal year and ownership fiscal year.	_____	_____	_____	_____
3) Consider scheduling potential "built-in" gains at date of election.	_____	_____	_____	_____
b) If the S status was <u>revoked</u> during the current year:				

S CORPORATION TAX RETURN PREPARATION AND REVIEW CHECKLIST
1988- FORM 1120S

	<u>DONE</u>	<u>NOT DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
A) GENERAL INFORMATION (Continued)				
1) Confirm that a revocation election was properly filed.	_____	_____	_____	_____
2) Determine whether the revocation is effective for the entire year (if filed within the first 2 1/2 months of the year) or prospectively.	_____	_____	_____	_____
c) If S status was <u>terminated</u> or revoked during the year:				
1) Verify allocation method - per day basis or actual. More than 50% cumulative change in stock ownership requires actual. If using actual, match the election and the share-holders' consent (Temp. Reg. 18.1362-4).	_____	_____	_____	_____
2) Consider C corporation estimated tax payments for the succeeding year based on the S corporation's net income.	_____	_____	_____	_____
3) Consider requesting relief under the Inadvertent Termination Rule under Section 1362(f).	_____	_____	_____	_____
A10) If the corporation has selected an allowable fiscal tax year, determine that Form 8716 has been timely filed, and that 'required payments' have been made.	_____	_____	_____	_____
A11) Determine if the return is for a short year. If so, review related procedures and disclose on Page 1 of the return.	_____	_____	_____	_____
B) INCOME				
B1) Determine that installment sales are reported properly.	_____	_____	_____	_____
a) Determine that the full amount of depreciation recapture is reported in the year of sale.	_____	_____	_____	_____
b) Review for appropriate interest rates on debt instruments received in connection with the sale. Determine whether any interest rate/income adjustments are necessary.	_____	_____	_____	_____

S CORPORATION TAX RETURN PREPARATION AND REVIEW CHECKLIST
1988- FORM 1120S

	<u>DONE</u>	<u>NOT DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
B) INCOME (Continued)				
c) Dealer sales:				
1) Determine that the installment method is <u>not</u> used to report post December 31, 1987 sales of dealer property. (Exceptions - farm property, certain timeshare rights and residential lots if proper election is made.)	_____	_____	_____	_____
2) Determine that the interest owed as a result of an election in (1) above is properly reported.	_____	_____	_____	_____
3) For sales occurring after 2/28/86 and before 1/1/88, compute Section 481 adjustment and consider application of three year payment provisions for amounts attributable to the proportionate disallowance rules.	_____	_____	_____	_____
d) Consider special rules for installment reporting by certain non-dealers of real property used in the trade or business or for the production of rental income where the sales price exceeds \$150,000 (Section 453A).	_____	_____	_____	_____
1) Compute the interest payment on any deferred tax liability if the face amount of all obligations arising from this type of disposition exceeds \$5,000,000.	_____	_____	_____	_____
2) Determine that the proper amount is treated as a collection on any pledged installment obligation.	_____	_____	_____	_____
e) Consider electing out of installment reporting.	_____	_____	_____	_____
B2) Determine if deferred income for book purposes should be included in taxable income.	_____	_____	_____	_____
B3) Examine fixed assets for any disposals:				
a) Reconcile to depreciation schedule.	_____	_____	_____	_____
b) Determine that related gains and losses are properly reported.	_____	_____	_____	_____
c) Consider investment tax credit recapture.	_____	_____	_____	_____

S CORPORATION TAX RETURN PREPARATION AND REVIEW CHECKLIST
1988- FORM 1120S

	<u>DONE</u>	<u>NOT DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
B) INCOME (Continued)				
<p>d) If property was sold, exchanged or involuntarily converted during the year, consider the provisions related to:</p>				
1) Non-recognition of gain or loss.	_____	_____	_____	_____
2) Recapture of depreciation and/or investment tax credit.	_____	_____	_____	_____
B4) Determine if there were any wash sales of securities during the tax year.	_____	_____	_____	_____
B5) Determine if any securities held by the S corporation became worthless during the year.	_____	_____	_____	_____
B6) Exclude interest on state or local obligations from federal taxable income.	_____	_____	_____	_____
B7) Exclude interest on exempt state, local and federal obligations from state and local taxable income if applicable.	_____	_____	_____	_____
B8) If the S corporation has passive income or losses from one or more activities, they may be required to be separately reported on the K-1 schedules (see the Passive Activity Checklist).	_____	_____	_____	_____
a) The S corporation was involved in or was a limited partner in a trade or business in which it does not materially participate.	_____	_____	_____	_____
b) The S corporation has any rental activity other than hotels, car rentals and similar activities in which substantial services are provided.	_____	_____	_____	_____
B9) Compare Forms 1099 received for proper inclusion in sales, interest income, dividends, etc.	_____	_____	_____	_____
B10) Determine that the required change to the specific charge-off method for bad debts has been made. Pre-1987 bad debt reserve is generally to be taken into income ratably over four years beginning in 1987.	_____	_____	_____	_____

S CORPORATION TAX RETURN PREPARATION AND REVIEW CHECKLIST
1988- FORM 1120S

	<u>DONE</u>	<u>NOT DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
C) DEDUCTIONS				
C1) Consider the uniform capitalization rules this applies to self-constructed assets, resalers with average receipts in excess of \$10 million including attribution and all manufacturers.)				
a) Determine that all costs are included - those capitalized under the old law full absorption, as well as a portion of following costs required under the 1986 and 1987 Act:				
1) Taxes (other than income taxes).				
2) Tax depreciation/amortization.				
3) Percentage depletion.				
4) Administration costs.				
5) Support function/department.				
6) Officer's compensation.				
7) Insurance costs.				
8) Retirement plan contributions, including past service costs. (New for 1988).				
9) Rework labor/scrap/spoilage.				
10) Purchasing.				
11) Bidding expenses on awarded contracts.				
12) Storage warehouse.				
13) Quality control.				
b) Consider the advantages and disadvantages of electing the "simplified" method for resalers.				
c) Consider interest capitalization rules for debt incurred to produce property.				
d) If the beginning inventory is revalued, ascertain the amount of adjustment required for the beginning inventory due to the change in the method of accounting (Section 481). Ascertain Section 481 forward spread period (not to exceed four years).				

S CORPORATION TAX RETURN PREPARATION AND REVIEW CHECKLIST
1988- FORM 1120S

		<u>DONE</u>	<u>NOT DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
C)	DEDUCTIONS (Continued)				
	e) If Section 263A applies, determine that Form 3115 and the 263A checklist were filed with the tax return in the year of change. If not, these forms must be filed with the 1988 tax return. (See IRS Notice 88-92).	_____	_____	_____	_____
	f) For farmers and ranchers, consider initial one-time election out of uniform capitalization rules.	_____	_____	_____	_____
C2)	For long-term contracts entered into after February 28, 1986:				
	a) Determine that S corporations reporting under the completed-contract method recognize 40% (70% after October 13, 1987) of related income on percentage-of-completion method. (Exceptions - contracts completed within two years and annual average company receipts of less than \$10 million).	_____	_____	_____	_____
	b) Consider the 1986 Act modification to the percentage-of-completion method:				
	1) Completion percentage based on costs, not work performed.	_____	_____	_____	_____
	2) The expanded requirement to capitalize costs similar to uniform capitalization rules (see C-1).	_____	_____	_____	_____
	3) The requirement to compute prior year estimate inaccuracies with actual costs at completion of the contract and pay interest on related unpaid prior year taxes ("Look-Back Rule").	_____	_____	_____	_____
C3)	For charitable contributions:				
	a) Determine that all contributions are to qualified charitable organizations.	_____	_____	_____	_____
	b) Consider the limitations related to contributions of appreciated ordinary income property.	_____	_____	_____	_____
	c) Consider the deduction for more than the cost of appreciated capital gains property.	_____	_____	_____	_____

S CORPORATION TAX RETURN PREPARATION AND REVIEW CHECKLIST
1988- FORM 1120S

		<u>DONE</u>	<u>NOT DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
C)	DEDUCTIONS (Continued)				
	d) Ascertain that Minutes document authorization for charitable contributions accrued.	_____	_____	_____	_____
C4)	Vacation pay accrual:				
	a) Review the S corporation's policy to determine if a deduction is allowable on the accrual basis and that the accrued vacation will be taken/paid within 2 1/2 months.	_____	_____	_____	_____
	b) Consider that the 1987 Act repealed the Section 463 vacation rules and any taxpayer required to change accounting methods must recognize the adjustment over a maximum of 4 years.	_____	_____	_____	_____
C5)	Determine that fringe benefits for more than 2% shareholders are no longer deducted by the corporation but are separately reported.	_____	_____	_____	_____
C6)	Inquire whether the S corporation can substantiate by adequate records, as required under IRC Section 274, expenses claimed for entertainment, entertainment facilities, gifts (note \$25 limit), travel and conventions.	_____	_____	_____	_____
C7)	Limit meals and entertainment to 80%, (Inquire if there are any employee events, qualified banquets, etc that are deductible in full.)	_____	_____	_____	_____
C8)	If taxpayer maintains a pension and/or profit sharing plan and has not contributed the maximum contribution for each taxable year beginning prior to 1987, calculate the unfunded contribution carryover amount.	_____	_____	_____	_____
C9)	Officers and shareholders:				
	a) Identify expenses, including interest if applicable, for officers' life insurance which are non-deductible.	_____	_____	_____	_____
	b) Determine limitation on any losses during the year between related corporations/shareholders under Section 267(a)(1).	_____	_____	_____	_____
	c) If there were any accruals of interest, compensation or other expenses payable to a shareholder, determine that for tax purposes the deduction is deferred until the year in which it is included in income by the shareholder.	_____	_____	_____	_____

S CORPORATION TAX RETURN PREPARATION AND REVIEW CHECKLIST
1988- FORM 1120S

	<u>DONE</u>	<u>NOT DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
C) DEDUCTIONS (Continued)				
C10) Reconcile income per books with taxable income.	_____	_____	_____	_____
a) Determine that nondeductible items are properly reflected on the return.	_____	_____	_____	_____
b) Determine that deductions are taken for currently deductible deferred charges and prepaid expenses.	_____	_____	_____	_____
D) DEPRECIATION				
D1) Consider various depreciation methods and lives (for 1987-88 acquisitions consult Rev. Proc. 87-57 tables):				
a) Consider Section 179 election to expense certain depreciable assets up to \$10,000. Reduce \$10,000 ceiling by the cost of qualifying property purchased during the year in excess of \$200,000. Limit expense to taxable income from active trade or business.	_____	_____	_____	_____
b) For acquisitions of real estate, other than low-income housing, after December 31, 1980 and before January 1, 1987, determine that depreciation deductions are computed using the appropriate ACRS life and method.	_____	_____	_____	_____
c) For acquisitions of real estate after December 31, 1986, determine if property is residential or non-residential property. Determine that modified ACRS (MACRS) depreciation deductions are computed using straight-line, mid-month convention, 27.5-year life for residential rental and 31.5-year life for non-residential real property.	_____	_____	_____	_____
d) For acquisitions after December 31, 1986, determine the ADR class life for each asset placed in service and the appropriate depreciation method.	_____	_____	_____	_____

S CORPORATION TAX RETURN PREPARATION AND REVIEW CHECKLIST
1988- FORM 1120S

		<u>DONE</u>	<u>NOT DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
D)	DEPRECIATION (continued)				
	e) Determine the applicable convention (e.g. half-year, mid-quarter). If more than 40% of MACRS property (except real estate) is placed in service during the last three months of the year use mid-quarter convention.	_____	_____	_____	_____
	f) For leasehold improvements made after December 31, 1986, determine that the cost is being recovered over the applicable recovery period REGARDLESS of the lease period.	_____	_____	_____	_____
	g) Consider electing the alternative depreciation system for property placed in service during the year.	_____	_____	_____	_____
D2)	Make adjustments for depreciable assets which are demolished, obsolete, abandoned and/or out of service. Consider investment credit recapture.	_____	_____	_____	_____
D3)	For assets placed in service after June 18, 1984, that are used partly for business and partly for personal use (i.e. autos, computers, airplanes, boats):				
	a) Consider maximum depreciation under the luxury auto rules.	_____	_____	_____	_____
	b) For autos, determine limitation if business usage is 50% or less.	_____	_____	_____	_____
	c) Determine limitation, for all other mixed-use property if business usage is 50% or less.	_____	_____	_____	_____
	d) For leased vehicles and property, determine business and personal usages and calculate appropriate income to be reported by referring to the IRS tables.	_____	_____	_____	_____
	e) Inquire if the S corporation has kept the required records indicating the business and personal use of property.	_____	_____	_____	_____
	f) For listed property acquired after April, 1984, determine recapture if business use is 50% or less.	_____	_____	_____	_____

S CORPORATION TAX RETURN PREPARATION AND REVIEW CHECKLIST
1988- FORM 1120S

	<u>DONE</u>	<u>NOT DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
D) DEPRECIATION (Continued)				
D4) Determine if property/equipment leases are operating leases or capital leases.	_____	_____	_____	_____
D5) Form 4562:				
a) Reconcile depreciation expense to supporting schedules.	_____	_____	_____	_____
b) Complete all questions regarding personal use of listed property.	_____	_____	_____	_____
c) Determine that all amortizable items are separately stated and the proper Code section cited.	_____	_____	_____	_____
E) TAX COMPUTATION AND CREDITS				
E1) Consider tax credits such as:				
a) Foreign tax credit.	_____	_____	_____	_____
b) Investment credit (rehabilitation and transition property).	_____	_____	_____	_____
c) Jobs credit.	_____	_____	_____	_____
d) Credit for increasing research activities.	_____	_____	_____	_____
E2) Tax at corporate level:				
a) Tax on excess net passive income:				
1) Applicable if passive investment income is greater than 25% of gross receipts <u>and</u> the S corporation has earnings and profits from any C years.	_____	_____	_____	_____
2) Consider election to designate distributions as earnings and profits.	_____	_____	_____	_____
b) Tax on "built-in" gains - applies to corporations filing S status elections subsequent to 1986 (1988 for capital gains if qualified small business corporation):				

S CORPORATION TAX RETURN PREPARATION AND REVIEW CHECKLIST
1988- FORM 1120S

		<u>DONE</u>	<u>NOT DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
E) TAX COMPUTATION AND CREDITS (continued)					
1)	Compute tax at maximum corporate rate for the gain (not to exceed Subchapter C taxable income including NOL carryovers) on appreciated assets disposed of during the year (including collection of cash basis receivables) that were held at the time of the S election.	_____	_____	_____	_____
2)	Consider special rules taxing disposal of assets acquired tax free from the S corporation.	_____	_____	_____	_____
3)	Reduce the pass-through gains by the "built-in" gain tax.	_____	_____	_____	_____
c)	Tax on net capital gains - applies to corporations that filed S elections prior to 1987 (1989 if "qualified small corporation") which have:				
1)	Net capital gains exceeding \$25,000, and				
2)	Net capital gains are greater than 50% of taxable income, and				
3)	Taxable income is greater than \$25,000.	_____	_____	_____	_____
A)	Consider exceptions for S corporations which have 1) never been a C corporation, or 2) have been an S corporation for the three preceding taxable years (may not apply to gains on certain substituted basis property).	_____	_____	_____	_____
B)	Consider limitation of tax to lesser of 1) regular corporate tax on the S corporation's taxable income, or 2) the alternative tax on net capital gain in excess of \$25,000 (for tax years beginning after June 30, 1987, the alternative tax no longer applies).	_____	_____	_____	_____
C)	Consider installment sales reporting to avoid or delay net capital gains tax.	_____	_____	_____	_____
D)	Reduce the pass-through gains by the net corporate capital gains tax.	_____	_____	_____	_____

S CORPORATION TAX RETURN PREPARATION AND REVIEW CHECKLIST
1988- FORM 1120S

	<u>DONE</u>	<u>NOT DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
E) TAX COMPUTATIONS AND CREDITS (Continued)				
d) Consider tax on recapture of LIFO reserve for C corporations electing S status.	_____	_____	_____	_____
e) Compute the investment tax credit recapture payable by the corporation for the early disposition of assets acquired in C corporation years.	_____	_____	_____	_____
F) SHAREHOLDER INFORMATION				
F1) Shareholder allocation/limitation:				
a) Determine that items of income, deductions, credits, etc. are allocated to the shareholders on a per-share, per-day basis.	_____	_____	_____	_____
b) If stock transfers occurred during the year, consider allocations based on time of actual occurrence. Attach the shareholder consent and statement of election (Reg. 18.1377-1).	_____	_____	_____	_____
F2) Shareholder distribution/basis computations:				
a) Determine that equity increases and decreases (Schedule M) are properly segregated between:				
1) Shareholders undistributed PTI.	_____	_____	_____	_____
2) Accumulated adjustment account.	_____	_____	_____	_____
3) Other adjustments account.	_____	_____	_____	_____
4) Retained earnings.	_____	_____	_____	_____
b) Determine that distributions exceeding accumulated adjustment account for S corporations with earnings and profits from C or pre-1983 S years are reported to shareholders as dividends to the extent of accumulated earnings and profits.	_____	_____	_____	_____
c) If accounting for shareholder basis:				
1) Determine that shareholder's loss allocation is not deducted to the extent it exceeds the adjusted basis in stock and indebtedness owed to the shareholder.	_____	_____	_____	_____

S CORPORATION TAX RETURN PREPARATION AND REVIEW CHECKLIST
1988- FORM 1120S

		<u>DONE</u>	<u>NOT DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
F) SHAREHOLDER INFORMATION (Continued)					
2)	Determine that previously undeducted losses for tax years beginning after 1982 are allowed in a subsequent year in which the shareholder obtains basis.	_____	_____	_____	_____
3)	Determine that loans, loan repayments, contributions of capital and distributions between shareholders and the S corporation properly adjust the basis of the shareholder's stock and indebtedness.	_____	_____	_____	_____
4)	If distributions from AAA or distributions in excess of earnings and profits exceed a shareholder's basis, determine that the gain is properly reported as a capital gain.	_____	_____	_____	_____
5)	Determine that corporate indebtedness owed to shareholders is evidenced by written instrument. In the event a shareholder's basis in the debt is reduced by losses, subsequent repayment will be a capital gain rather than ordinary income only if a written instrument exists.	_____	_____	_____	_____
d)	Determine that gain is recognized and allocated to each shareholder for distribution of appreciated property (except certain qualifying complete liquidations exempted under the 1986 Act transition rules).	_____	_____	_____	_____
G) K-1 INFORMATION					
G1) Passive activity information:					
a)	Indicate which shareholders "actively participate" in rental real estate activities of the S corporation.	_____	_____	_____	_____
b)	Indicate which shareholders "materially participate" in each activity of the S corporation.	_____	_____	_____	_____
G2)	If the S corporation has acquired real estate after December 31, 1986 or a shareholder has acquired or increased an interest in the S corporation after December 31, 1986, apply the at-risk rules.	_____	_____	_____	_____

S CORPORATION TAX RETURN PREPARATION AND REVIEW CHECKLIST
1988- FORM 1120S

	<u>DONE</u>	<u>NOT DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
G) K-1 INFORMATION (Continued)				
G3) For passive activity determination, if the S corporation started or acquired a new activity after October 22, 1986 or a shareholder's ownership interest increased after October 22, 1986, supply the shareholder with the required information.	_____	_____	_____	_____
G4) Properly reflect each shareholder's share of tax credit information.	_____	_____	_____	_____
G5) Determine that proper reporting has been provided for all items requested on Schedule K-1 that affect shareholders' tax liability. Particular attention should be given to items affected by recent tax legislation such as:				
a) Ordinary trade or business income.	_____	_____	_____	_____
b) Rental activities.	_____	_____	_____	_____
c) Portfolio income and related deductions.	_____	_____	_____	_____
d) Passive activity data.	_____	_____	_____	_____
e) Shareholder's medical insurance.	_____	_____	_____	_____
G6) Segregate all tax preference items and list on the appropriate line of Schedule K.	_____	_____	_____	_____
G7) Prepare schedules that reflect each shareholder's share of property subject to investment credit recapture.	_____	_____	_____	_____
H) OTHER REQUIREMENTS				
H1) If this is a first-year return, consider the following elections:				
a) Election to amortize organization expense.	_____	_____	_____	_____
b) Cash vs. accrual method.	_____	_____	_____	_____
c) Election to amortize business start-up costs.	_____	_____	_____	_____

S CORPORATION TAX RETURN PREPARATION AND REVIEW CHECKLIST
1988- FORM 1120S

		<u>DONE</u>	<u>NOT DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
H)	OTHER REQUIREMENTS (Continued)				
	d) Election to expense intangible drilling costs.	_____	_____	_____	_____
	e) Section 351, statement of transferred assets, where applicable.	_____	_____	_____	_____
H2)	Cross reference the following items:				
	a) Schedule L beginning balances to prior year's ending balances.	_____	_____	_____	_____
	b) Schedule M beginning equity accounts to prior year's ending balance.	_____	_____	_____	_____
	c) Detail listings Schedule L beginning balances to prior year's detail listings ending balances.	_____	_____	_____	_____
H3)	If the corporation has made an 'applicable asset acquisition' (transfer of assets that constitute a trade or business), determine that applicable reporting requirements regarding allocation of purchase price have been met.	_____	_____	_____	_____
H4)	Determine that book/tax accounting method differences related to Schedule M are documented in the work paper files.	_____	_____	_____	_____
H5)	Consider that Section 6661 provides a 25% penalty for substantial understatement of tax liability. If this penalty could result from any income, deduction, loss, or credit item, then:				
	a) Consider if substantial authority exists for the item in question. If not, consider disclosure (Form 8275).	_____	_____	_____	_____
	b) Determine if the corporation is a tax shelter for purposes of Section 6661.	_____	_____	_____	_____
	c) Consider advising the corporation, in writing, of the 25% penalty.	_____	_____	_____	_____
H6)	Consider state filing requirements such as:				
	a) Recognition of "S" status.	_____	_____	_____	_____
	b) State modification requirements.	_____	_____	_____	_____
	c) State withholding requirements on income allocated to non-resident shareholders.	_____	_____	_____	_____

S CORPORATION TAX RETURN PREPARATION AND REVIEW CHECKLIST
1988- FORM 1120S

		<u>DONE</u>	<u>NOT DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
H)	OTHER REQUIREMENTS (Continued)				
H7)	Consider estimated tax payment requirements.	_____	_____	_____	_____
H8)	Attach extension requests to tax returns.	_____	_____	_____	_____
H9)	Prepare filing instructions and transmittal letter to the S corporation.	_____	_____	_____	_____
H10)	Inquire if the corporate Minutes Book has been updated.	_____	_____	_____	_____
H11)	Advise the S corporation to have their retirement plans reviewed to determine if they are in compliance in light of changing corporate circumstances and the recent tax law changes.	_____	_____	_____	_____
H12)	Advise the S corporation that a retirement plan contribution must be made before the due date of the return including extension.	_____	_____	_____	_____
H13)	Note any tax planning suggestions below.	_____	_____	_____	_____

COMMENTS OR EXPLANATIONS

5500 SERIES TAX RETURN PREPARATION AND REVIEW CHECKLIST
1988 - FORM 5500 SERIES

Client Name: _____ Client Number: _____

Interviewed by: _____ Date Completed/Hours: _____

Prepared by: _____ Date Completed/Hours: _____

Reviewed by: _____ Date Completed/Hours: _____

Return Due Date: _____ Extension Due Date: _____

		<u>DONE</u>	<u>NOT DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
A) GENERAL INFORMATION					
A1)	Verify if the current plan document is on file. Note the date of the latest amendment to the plan and the date of the plan document.	_____	_____	_____	_____
A2)	Review the accuracy of the plan sponsor/employer name, address, fiscal year, identification number, telephone number and business code.	_____	_____	_____	_____
A3)	Review the accuracy of the name, address, identification number and telephone number of the plan administrator if it is different from the plan sponsor.	_____	_____	_____	_____
A4)	Review prior year returns, review memos, work papers and correspondence files.	_____	_____	_____	_____
A5)	For professional service corporations, sub-S corporations, partnerships and certain other employers, verify current year-end for potential changes from a prior fiscal year.	_____	_____	_____	_____
A6)	Review the plan document or summary plan description to identify benefits provided by or allowed under the plan, i.e. welfare benefits (medical, insurance benefits), pension benefits, defined contribution (profit-sharing, stock bonus, target benefit, money purchase plans), thrift savings, participant-directed account plans, master trust, or cash or deferred arrangements (401(k) plans). Identify the type of plan _____.	_____	_____	_____	_____
A7)	If the plan has been examined by the Internal Revenue Service:				
a)	Obtain copies of the revenue agent's reports.	_____	_____	_____	_____
b)	Verify that the agent's adjustments have been entered on the plan's records.	_____	_____	_____	_____
c)	If any of the agent's adjustments affect the income tax returns of years other than those audited, make appropriate amendments.	_____	_____	_____	_____

5500 SERIES TAX RETURN PREPARATION AND REVIEW CHECKLIST
1988 - FORM 5500 SERIES

	<u>DONE</u>	<u>NOT DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
A8) Verify that plan documents and amendments were signed and approved by proper persons, noting signature date.	_____	_____	_____	_____
A9) Verify that a copy of IRS determination letter is in file.	_____	_____	_____	_____
A10) Review plan name, effective date, plan number; is plan name the same as last year? Is HR 10 plan box checked if applicable?	_____	_____	_____	_____
A11) Inquire if administrator has a file of beneficiary statements and participant's consent forms for benefit options.	_____	_____	_____	_____
B) DETERMINE THE APPROPRIATE FORMS TO FILE				
B1) Determine the number of participants for this plan year and the prior plan year to determine whether a 5500, 5500-C or 5500-EZ is required.	_____	_____	_____	_____
B2) Determine if a Form 5500-R is appropriate for this plan year (generally it is appropriate if a 5500-C has been filed in either of the prior two years).	_____	_____	_____	_____
B3) Determine if this is the plan's first or final year. If so, Form 5500-R cannot be filed.	_____	_____	_____	_____
B4) Identify types of plans maintained by the employer which may require separate 5500, 5500-C, or 5500-R reports.	_____	_____	_____	_____
B5) Determine if the employer is a member of a controlled group or a member of groups of businesses under common control to identify the reports required.	_____	_____	_____	_____
B6) Determine if the plan is subject to the multi-employer plan filing requirements.	_____	_____	_____	_____
B7) Determine if additional forms are required such as:				
a) Schedule SSA - separated participants with deferred vested benefits.	_____	_____	_____	_____
b) Schedule B - actuarial information.	_____	_____	_____	_____
c) Schedule P - statute of limitations.	_____	_____	_____	_____
d) Worksheet A/Worksheet B - percentage test (Form 5500-EZ).	_____	_____	_____	_____

5500 SERIES TAX RETURN PREPARATION AND REVIEW CHECKLIST
1988 - FORM 5500 SERIES

	<u>DONE</u>	<u>NOT DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
B) DETERMINE THE APPROPRIATE FORMS TO FILE (Continued)				
B8) Determine if other attachments are required, such as:				
a) Approved extension of time to file.	_____	_____	_____	_____
b) Accountant's opinion, financial statements.	_____	_____	_____	_____
B9) Determine if PBGC Form 1 is required for defined benefit pension plan.	_____	_____	_____	_____
a) Determine the current plan year for which the filing is made (Form 1 is filed for the current year; Form 5500 for the preceding plan year).	_____	_____	_____	_____
b) Determine the due date for Form 1.	_____	_____	_____	_____
c) Determine if 1988 premium rules have been implemented reflecting increase in premium rates.	_____	_____	_____	_____
C) SPECIFIC PLAN FEATURES				
C1) If the plan has cash or deferred arrangements, review non-discriminatory coverage tests. Determine if the deferral percentage test has been met.	_____	_____	_____	_____
C2) Determine if any fiduciary or employee handles plan funds and is subject to bonding requirements using the government worksheet (10% of the funds handled, minimum \$1,000 and maximum \$500,000).	_____	_____	_____	_____
C3) Identify all "party in interest transactions" (leases, loans, provision of office space, compensation, sales of property between parties in interest) and note which are exempt from prohibited transaction rules. Report all transactions, indicating which are exempt by statute from prohibited transaction rules.	_____	_____	_____	_____
C4) Plan fiduciaries - determine which persons perform duties involving exercise of control or discretion over plan assets and identify them on the return as plan fiduciaries. Also determine the plan's designated agent for legal process.	_____	_____	_____	_____

5500 SERIES TAX RETURN PREPARATION AND REVIEW CHECKLIST
1988 - FORM 5500 SERIES

	<u>DONE</u>	<u>NOT DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
C) SPECIFIC PLAN FEATURES (Continued)				
C5) Identify all acquisitions during the year from the employer, including bonds, debentures, notes, certificates, other indebtedness and real or personal property leased to an employer or affiliate. Determine if such acquisitions exceed 10% of the fair market value of the plan assets.	_____	_____	_____	_____
C6) Top-heavy plans:				
a) Determine if the plan has been tested for top-heavy status.	_____	_____	_____	_____
b) Identify all highly compensated employees within both the current and the prior five years.	_____	_____	_____	_____
c) Identify all distributions made to highly compensated employees in the past five-year period.	_____	_____	_____	_____
d) Identify all plans of the employer in which highly compensated employees participate.	_____	_____	_____	_____
e) Determine if top-heavy vesting and minimum benefits and contributions are applicable even though minimum hours of service are not met during the plan year.	_____	_____	_____	_____
f) Determine that eligible compensation, for purposes of crediting to highly compensated employees' accounts, has been limited to \$200,000.	_____	_____	_____	_____
g) Determine if cash or deferred arrangements have excess deferral. Determine amount of distribution or forfeiture before the end of the following plan year.	_____	_____	_____	_____
C7) Determine that leased employees who have met the initial service period have been included as regular plan participants.	_____	_____	_____	_____
C8) Ascertain what schedule of vesting the plan uses.	_____	_____	_____	_____
D) REPORTING FINANCIAL ACTIVITY				
D1) Reconciliation of deductions for contributions to plan:				

5500 SERIES TAX RETURN PREPARATION AND REVIEW CHECKLIST
1988 - FORM 5500 SERIES

		<u>DONE</u>	<u>NOT DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
D)	REPORTING FINANCIAL ACTIVITY (Continued)				
	a) Complete IRS worksheet A.	_____	_____	_____	_____
	b) Identify contributions made before the due date of the employer's income tax return, including extensions of time to file, which are designated as contributions for this plan year.	_____	_____	_____	_____
	c) Inquire if the actuary has determined that funding is adequate.	_____	_____	_____	_____
	d) File Form 5330 to pay excise tax if a deficiency or over-funding exists.	_____	_____	_____	_____
	e) For defined contribution plans, determine that no allocations have been made to participants which are in excess of allowable limits; for defined benefit plans, determine that no excess benefits have been funded.	_____	_____	_____	_____
D2)	Prepare a trial balance and record activity for the plan year using consistent accounting procedures used in maintaining the books and records of the plan. Adjust investments to fair market value at the plan year-end.	_____	_____	_____	_____
D3)	Determine if the plan generates \$1,000 or more of unrelated business income and must file Form 990T.	_____	_____	_____	_____
D4)	Determine if there has been any reversion of plan assets back to the employer.	_____	_____	_____	_____
D5)	Ascertain the total number of employees at year-end, and prepare a reconciliation from this figure to the actual number of plan participants. Determine that all eligible participants have in fact been included in coverage under the plan.	_____	_____	_____	_____
D6)	Ascertain if plan is integrated with social security. If so determine that formula is within approved limits, and that allocations to participants have been properly made.	_____	_____	_____	_____
E)	PENALTIES				
E1)	Determine the correct due date of the return. Failure to timely file a return is subject to a penalty of \$25 per day (up to \$15,000).	_____	_____	_____	_____
E2)	Determine if the plan is required to file information returns for distributions (1099-R), retired pay (W-2P), or P.S. 58 costs (W-2P).	_____	_____	_____	_____

5500 SERIES TAX RETURN PREPARATION AND REVIEW CHECKLIST
1988 - FORM 5500 SERIES

		<u>DONE</u>	<u>NOT DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
E) PENALTIES (Continued)					
E3) Consider other applicable penalties, such as:					
a)	Failure to file registration statements (up to \$5,000).	_____	_____	_____	_____
b)	Failure to file actuarial statements (Schedule B - \$1,000).	_____	_____	_____	_____
c)	Failure to file a complete return, such as failure to complete <u>all</u> applicable information.	_____	_____	_____	_____
d)	Overstatement of pension liabilities.	_____	_____	_____	_____
e)	Excise tax on prohibited transactions.	_____	_____	_____	_____
f)	Excise tax on plan reversions.	_____	_____	_____	_____
g)	Excise tax on over funding.	_____	_____	_____	_____
F) OTHER REQUIREMENTS					
F1)	Discuss with the plan administrator how the appropriate summary annual report is to be distributed to the participants.	_____	_____	_____	_____
F2)	Determine that summary plan description has been filed with DOL.	_____	_____	_____	_____
F3)	Discuss with the plan administrator the availability of the current summary plan description and distribution to participants on a timely basis.	_____	_____	_____	_____
F4)	Discuss with the plan administrator the preparation of the statement of participant's accrued benefits.	_____	_____	_____	_____
F5)	Discuss with the plan administrator the preparation and distribution of statement of deferred vested benefits to separated employees.	_____	_____	_____	_____
F6)	If the employer maintains a profit-sharing plan or stock bonus plan and has not contributed the maximum contribution for each year, calculate the unfunded pre-1987 contribution carryforward amount.	_____	_____	_____	_____
F7)	For participants in pay status, discuss with plan administrator:				

5500 SERIES TAX RETURN PREPARATION AND REVIEW CHECKLIST
1988 - FORM 5500 SERIES

		<u>DONE</u>	<u>NOT DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
F)	OTHER REQUIREMENTS (Continued)				
	a) Notice of joint & survivor annuity requirement.	_____	_____	_____	_____
	b) Spousal consent to alternative forms of benefits.	_____	_____	_____	_____
	c) Requirement of withholding on payouts (or election out by participant).	_____	_____	_____	_____
	d) Notice to participants as to special tax treatment available for lump sum distributions.	_____	_____	_____	_____
F8)	Discuss with plan administrator the provision for an explanation of "qualified pre-retirement survivor annuity" to participants.	_____	_____	_____	_____
F9)	Plan loans - Ascertain:				
	a) If in accordance with plan document.	_____	_____	_____	_____
	b) If in accordance with relevant IRC provisions:				
	i) 5 year requirement,	_____	_____	_____	_____
	ii) dollar limitations,	_____	_____	_____	_____
	iii) quarterly amortization,	_____	_____	_____	_____
	iv) spousal consents, if applicable.	_____	_____	_____	_____
	c) None made to sole proprietors, or certain S corporation shareholders or partners (see Section 4975).	_____	_____	_____	_____
F10)	Determine that plan has made the minimum distributions to participants as required by IRC section 401(a)(9).	_____	_____	_____	_____

COMMENTS OR EXPLANATIONS

PASSIVE ACTIVITY CHECKLIST 1988

Client Name: _____ Client Number: _____

Interviewed by: _____ Date Completed/Hours: _____

Prepared by: _____ Date Completed/Hours: _____

Reviewed by: _____ Date Completed/Hours: _____

Return Due Date: _____ Extension Due Date: _____

THIS CHECKLIST IS DRAFTED FOR 1988 CALENDAR YEAR RETURNS

		<u>DONE</u>	<u>NOT DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
A)	ACTIVITIES				
A1)	Review recent IRS regulations and Congressional legislation that may affect the passive loss rules - this checklist was drafted October, 1988.	_____	_____	_____	_____
A2)	Indicate the activity and type to which this checklist applies (use a separate checklist for each activity). _____				
A3)	Determine that other provisions limiting the deductibility of items under the IRC, such as the at-risk provisions, 704(d) basis, etc. have been considered before applying the passive loss rules.	_____	_____	_____	_____
A4)	Determine if the activity is a trade or business activity or a rental activity. Consider the six exceptions to the definition of "rental activity" stated in the temporary regulations.	_____	_____	_____	_____
A5)	Determine if the activity is specifically excluded from the definition of "passive activity" (e.g. trading in personal property, or any working interest in any oil and gas property owned directly or through an entity that does not limit taxpayer's liability).	_____	_____	_____	_____
A6)	Determine if the activity is subject to the "publicly traded partnership" rules. If so, report separately.	_____	_____	_____	_____

PASSIVE ACTIVITY CHECKLIST
1988

	<u>DONE</u>	<u>NOT DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
A) ACTIVITIES (Continued)				
A7) Determine if the activity involves the rental of a dwelling unit used by the taxpayer as a residence during the taxable year (if yes, the activity is not a passive activity).	_____	_____	_____	_____
B) PORTFOLIO INCOME				
B1) Separate portfolio income from passive income or loss.	_____	_____	_____	_____
B2) Separately state expenses allocable to portfolio income.	_____	_____	_____	_____
C) SPECIAL RULES FOR "C" CORPORATIONS				
C1) If taxpayer is a "C" corporation, determine if it is a closely held corporation or a personal service corporation, subject to the passive loss limitations.	_____	_____	_____	_____
C2) If taxpayer is a closely held "C" corporation, calculate its net active income.	_____	_____	_____	_____
C3) If taxpayer is a corporation which is a member of an affiliated group of corporations filing a consolidated return, determine the status (personal service, closely held) for the group as if it were a single taxpayer.	_____	_____	_____	_____
D) MATERIAL PARTICIPATION (OTHER THAN A RENTAL ACTIVITY)				
D1) Determine if the taxpayer satisfied any one of the following tests:				
1) The taxpayer participated in the activity for more than 500 hours during the taxable year.	_____	_____	_____	_____
2) The taxpayer's participation in the activity constituted substantially all of the participation in the activity by all individuals, including non-owner employees, for the taxable year.	_____	_____	_____	_____

PASSIVE ACTIVITY CHECKLIST

1988

	<u>DONE</u>	<u>NOT DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
D) MATERIAL PARTICIPATION (Continued)				
3) The taxpayer participated in the activity for more than 100 hours during the taxable year and no other individual, including non-owner employees, participated more.	_____	_____	_____	_____
4) The taxpayer's aggregate participation in all "significant participation activities" exceeded 100 hours per activity and 500 hours per year for all such activities. List the aggregated significant participation activities in the comments section at the end of this checklist.	_____	_____	_____	_____
5) The taxpayer materially participated in an activity for any five of the preceding ten taxable years.	_____	_____	_____	_____
6) The activity consists of providing personal services for the year and the taxpayer materially participated in the activity for any three prior taxable years.	_____	_____	_____	_____
7) Based on all the facts and circumstances surrounding the taxpayer's participation, the taxpayer participates in the activity on a regular, continuous and substantial basis during the taxable year.	_____	_____	_____	_____
D2) If taxpayer is a limited partner, consider applying the exceptions to qualify for "material participation."	_____	_____	_____	_____
D3) If taxpayer is a partnership or S corporation, apply tests in D1 to each owner.	_____	_____	_____	_____
D4) Combine the participation of a husband and wife eligible to file a joint return for purposes of the above tests.	_____	_____	_____	_____
D5) If taxpayer is a closely held "C" corporation or personal service corporation, determine if shareholders owning more than 50% of its stock in the aggregate materially participated in the activity.	_____	_____	_____	_____

PASSIVE ACTIVITY CHECKLIST
1988

	<u>DONE</u>	<u>NOT DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
D) MATERIAL PARTICIPATION (Continued)				
D6) If taxpayer is a closely held "C" corporation, consider alternative test for material participation based on employees and business expenses - see IRC sec. 465 (c)(7)(D).	_____	_____	_____	_____
E) ACTIVE PARTICIPATION BY AN INDIVIDUAL IN RENTAL REAL ESTATE ACTIVITY				
E1) Consider the following for the \$25,000 special allowance exception for rental real estate losses (see Form 8582).	_____	_____	_____	_____
a) AGI Limitations.	_____	_____	_____	_____
b) Active participation.	_____	_____	_____	_____
c) 10% ownership test.	_____	_____	_____	_____
E2) Consider the special allowance for credits from rental real estate activities with active participation.	_____	_____	_____	_____
F) DISPOSITIONS				
F1) Determine if the taxpayer disposed, in a taxable transaction, of his entire interest in a passive activity to an unrelated third party at arm's length or as a full abandonment of the entire interest, if so:				
a) Consider the rules for the disposition of an interest in a pass through entity (e.g., partnership or "S" corporation).	_____	_____	_____	_____
b) Deduct in full any loss allocable to such activity including disallowed losses from prior years.	_____	_____	_____	_____
c) Consider the suspended loss utilization rules for the installment sale of an entire interest.	_____	_____	_____	_____
F2) Consider the limitations on a disposition of a passive activity:				
a) Non-taxable exchange.	_____	_____	_____	_____
b) Capital losses.	_____	_____	_____	_____

PASSIVE ACTIVITY CHECKLIST
1988

		<u>DONE</u>	<u>NOT DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
F)	DISPOSITIONS (Continued)				
F3)	Determine the passive income if the taxpayer sold his entire interest in a passive activity via an installment sale prior to 1987.	_____	_____	_____	_____
F4)	If the taxpayer disposed of his interest at death, deduct suspended losses to the extent such losses exceed the amount by which the activity's basis increased pursuant to IRC Section 1014.	_____	_____	_____	_____
F5)	Determine that the donee's basis of a passive activity interest received via gift has been increased by the amount of any losses allocable to such interest. Note that the donor may not claim the suspended losses.	_____	_____	_____	_____
G)	SPECIAL CHARACTERIZATION OF INCOME RULES				
G1)	Determine if any gain from the disposition of an interest in an activity is passive in the year of disposition.	_____	_____	_____	_____
G2)	Determine the character of any gain on the disposition of substantially appreciated property formerly used in a non-passive activity.	_____	_____	_____	_____
G3)	Determine if income from property rented for use in a trade or business activity in which the taxpayer materially participated for the taxable year is not passive. (Note that this rule does not apply to net income attributable to rentals pursuant to binding written contracts entered into before 2/19/88.)	_____	_____	_____	_____
G4)	Consider whether any net income from the rental of nondepreciable property (e.g., unimproved land) must be recharacterized as non-passive.	_____	_____	_____	_____

PASSIVE ACTIVITY CHECKLIST
1988

		<u>DONE</u>	<u>NOT DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
G)	SPECIAL CHARACTERIZATION OF INCOME RULES (Continued)				
G5)	If the activity is a significant participation activity with net income, but not a material participation activity, determine whether a ratable portion of the activity's net income must be recharacterized as non-passive.	_____	_____	_____	_____
G6)	If the activity involves the lending of money consider the "equity-financed lending activity" rule.	_____	_____	_____	_____
G7)	If taxpayer received royalty income from a pass through entity that created the property or performed substantial services or incurred substantial cost in the development or marketing of the property, consider whether such royalty income must be treated as non-passive.	_____	_____	_____	_____
G8)	If the taxpayer materially or significantly participated in the development of the property, determine if the gain on sale is passive.	_____	_____	_____	_____
G9)	Determine if the taxpayer has carryforward losses from a former passive activity that can offset active income from the same activity.	_____	_____	_____	_____
H)	PASSIVE ACTIVITY RULES				
H1)	For each passive activity, combine the passive gains and passive losses for that activity to determine net passive gain or loss for the activity.	_____	_____	_____	_____
H2)	Determine if there are any carryovers of passive losses or credits from the preceding taxable year. Note - Suspended pre-1987 losses as a result of at-risk or basis limitations that may now be claimed are not subject to Section 469 limitations.	_____	_____	_____	_____

PASSIVE ACTIVITY CHECKLIST
1988

		<u>DONE</u>	<u>NOT DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
H)	PASSIVE ACTIVITY RULES (Continued)				
H3)	Determine if passive losses exceed passive income.	_____	_____	_____	_____
H4)	Subject credits from passive activities to the applicable limitations for such credits, i.e., generally such credits may not offset taxes other than taxes related to net passive income.	_____	_____	_____	_____
H5)	Consider the special limitations for the rehabilitation credit and low-income housing credit.	_____	_____	_____	_____
H6)	Prepare Form 8582.	_____	_____	_____	_____
H7)	Prepare Form 8582CR.	_____	_____	_____	_____
H8)	Allocate any disallowed passive loss ratably among taxpayer's passive activities having net losses for the taxable year and prepare a carryforward schedule.	_____	_____	_____	_____
H9)	Consider the passive loss limitations for purposes of the alternative minimum tax.	_____	_____	_____	_____
I)	EFFECTIVE DATE/TRANSITIONAL RULES FOR PREENACTMENT LOSSES				
I1)	For activities acquired prior to October 22, 1986, a net passive loss equal to the transitional rule percentage should be claimed as a deduction (see Form 8582).	_____	_____	_____	_____
I2)	Account for all passive activities acquired before October 23, 1986 separately from those acquired after October 22, 1986.	_____	_____	_____	_____
I3)	Determine that the phase-in rules for a passive activity loss are not applied to the extent that percentage ownership interests increased after October 22, 1986.	_____	_____	_____	_____

COMMENTS OR EXPLANATIONS
